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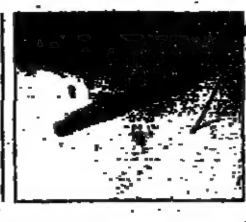
TUESDAY AUGUST 25 1998

Syros
Few beaches, but basking in success
Page 2

Lufthansa
Lean, aloft and hoping for a smooth ride
Page 17



Ballistic missiles
Growing threat of proliferation
Personal View, Page 12

Parkinson's disease
New treatments bring fresh hope
Health, Page 8

WORLD NEWS

US and UK agree to Lockerbie trial on neutral territory

The UK and US governments moved to end the diplomatic standoff over the Libyans accused of the Lockerbie bombing by proposing that the case *be heard on neutral territory, in* The Netherlands. **Page 14; Editorial Comment, Page 13**

No UN backing for Sudan probe
The UN Security Council declined to endorse a request by Sudan for a technical investigation into the US missile attack on an alleged chemical weapons factory in Khartoum. **Page 14**

China to anoint successor
Chinese sources said the Communist party is to anoint Hu Jintao, the vice-president, as the leading potential successor to President Jiang Zemin by appointing him to a senior military post. **Page 6**

Gingrich plays down impeachment
House speaker Newt Gingrich played down expectations of possible impeachment proceedings against President Clinton, saying he should not be removed from office for a "single human mistake". **Page 3**

EU residents to vote in UK
Citizens from other EU countries living in the UK will be able to vote in the UK in next year's elections for the European Parliament. **Page 8**

Suharto son-in-law sacked
Indonesia's military leadership dismissed the son-in-law of former President Suharto for kidnapping political activists. Many expected a court-martial. **Page 6**

Israel 'softening' on peace process
In an apparent softening, Israel was reported to have agreed to start further withdrawal from the West Bank without the Palestine National Council amending its founding charter.

Kosovo guerrilla campaign plan
The Kosovo Liberation Army was said to be preparing to adopt classic guerrilla warfare tactics against Yugoslav targets after losing territory during a recent Serbian offensive. **Rebels pushed back, Page 2**

S Africa's Boesak on trial
Former anti-apartheid leader Allan Boesak pleaded not guilty before a South African court to *charges of embezzling foreign* donor funds in the final years of the white-ruled regime.

Lost E German assets located
About DM2bn ($1.10bn) of state assets that went unaccounted for after the collapse of communist East Germany have been unearthed by investigators.

Bank to launch Nazi gold probe
Austria's Creditanstalt, facing a lawsuit from Holocaust survivors, said it would conduct a fresh investigation to prove it had no record of being involved in the transit of gold stolen from Jews during the second world war. **Unsettled business, Page 12**

Burma's Suu Kyi goes home
Burma's opposition leader Aung San Suu Kyi returned home in an ambulance after a 13-day protest against the military government's restrictions on her movements. **Ticking time bomb, Page 6**

Green light expected for Viagra
Viagra, the anti-impotence drug, could be cleared for sale in the European Union within weeks, after winning approval from an EU scientific committee. **Page 2**

BUSINESS NEWS

Stena Line scraps executive team in cost restructuring

Stena Line of Sweden, the world's largest ferry operator, disbanded its executive management team and announced the departure of six senior directors *as part of a drive to cut costs* and return to profit. **Page 15**

Intel launched its Pentium II and Celeron microprocessor chips which are expected to boost the performance of personal computers and reduce prices. **Page 15**

A consortium that *includes* Airport Group International and Bechtel, the US construction company, is to develop and manage for 30 years an extra terminal at London Luton airport in a £100m ($163m) deal. **Page 8**

***Cable and Wireless** has settled* a dispute with Bermuda over provision of international telecommunications services and dropped a $100m lawsuit it filed after an operating licence was granted to a rival. **Page 4**

Phytopharm, a UK company which develops drugs from plant extracts, has licensed an appetite- suppressing compound to Pfizer, the US pharmaceuticals group. **Page 18; Lex, Page 14**

Foster's Brewing Group, Australia's largest brewer, signalled a big shift in strategy towards China, putting up for sale its Tianjin and Guangdong breweries and taking a A$167.7m (US$97.5m) write-down on investments. **Page 15**

AMP, Australia's biggest life insurance, fund management and financial services group, met market expectations with its first half-year earnings since demutualising in 1997. **Page 17**

Goldman Sachs will attempt to tie partners and other staff to the firm by locking up discretionary shares for up to five years after its share flotation that could bring partners payments of $40m to $250m. **Page 15**

Hutchison Whampoa, the Hong Kong conglomerate controlled by Li Ka-shing, had its credit rating downgraded from A+ to A by Standard & Poor's, the US rating agency. **Page 17**

Japan Leasing, a debt-laden affiliate of the troubled Long Term Credit Bank of Japan, has asked a group of domestic banks *to forgive some Y160bn ($1.1bn)* of loans in a move that may stir controversy after the unveiling of plans to restructure LTCB using public funds. **Page 6**

San Miguel, the Philippines food and beverage group, saw its shares fall 4 per cent amid concerns that Eduardo Cojuangco, chairman, plans to put into his private businesses some proceeds from a $677m sale of the company's stake in Nestlé Philippines. **Page 16**

Merrill Lynch agreed to pay a $2m penalty to settle allegations it misled investors in underwriting Orange County, California municipal securities months before the county's bankruptcy.

Because of technical difficulties, some data on world markets pages were not available for this edition.

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
Page 29

Big BA order will boost Airbus

UK carrier's purchases a milestone for European consortium

By David Owen in Paris and George Parker in London

British Airways will today announce a multibillion-pound order for new Airbus aircraft in a significant breakthrough for the European consortium.

The UK carrier, which has *never before* ordered Airbus airliners, will announce a firm order for 59 single-aisle A319, A320 and A321 aircraft, with options for another 59 and an unspecified number of further provisional options.

All the Airbus aircraft are *expected to be equipped* with Rolls-Royce engines.

BA is also expected to announce it is buying about 20 wide-body Boeing 777s.

The announcement marks a milestone for the European aircraft consortium, which had its most successful year in 1997 and recently claimed to have won 52 per cent of all aircraft orders in the first half of this year.

Tony Blair, the UK prime minister, who has been on holiday in France, will today attend a press conference at the consortium's Toulouse base.

Downing Street said Mr Blair wanted to attend the announcement by the UK carrier because it would be "good news for Europe and good news for Britain".

The *prime minister* will hail the decision as a symbol of the importance of European co-operation.

The move should provide a substantial fillip for Airbus and Noël Forgeard, who took over as managing director of the group in April, at a time when negotiations aimed at turning the consortium into a single company are in progress.

Since its creation in 1970, the consortium has been a *Groupement d'Intérêt Economique*, which means it publishes no accounts and makes no profits or losses in its own right. These accrue to its owners – Aerospatiale of France and Daimler-Benz Aerospace (Dasa) of Germany, which each own 37.9 per cent. British Aerospace, which has a 20 per cent stake, and Casa of Spain, which has 4.2 per cent.

The main drawback of the structure is that Airbus managers have no idea of the consortium's manufacturing costs. Not only does Mr Forgeard, who spent 11 years in senior management at Lagardère, the French publishing to missiles group, want Airbus to become a limited company, colleagues say he also wants some of its equity to be floated.

Today's announcement will continue a buoyant period for Airbus, which last month won an order for 30 A330 aircraft from US Airways, marking the first time it had sold a wide-bodied fly-by-wire aircraft to a US carrier.

Earlier this year, the European consortium won a $4bn order from a group of airlines in Latin America, a market traditionally dominated by Seattle-based Boeing.

In 1997, Airbus won firm orders for 460 aircraft with a total value of $29.6bn.

By contrast Boeing, for which BA is a longstanding customer, has been enduring a rough spell, with manufacturing problems helping to push it into loss last year for the first time in 50 years.

BA yesterday would make no comment on today's announcement.

Airbus has regularly won more than a third of the international market for commercial aircraft in recent years, forcing McDonnell Douglas of the US out of the business.

In 1994 it won more orders than Boeing – the first time the US group had lost the top position since the advent of the jet age. Last year Airbus took 42 per cent of the market.

Boeing 747 considered as future warplane, Page 8
London stocks, Page 28

PRESIDENT HIGHLIGHTS ACTING PM'S 'EXPERIENCE AND WEIGHT' AS KEY TO DEALING WITH FINANCIAL TURMOIL

Yeltsin backs Chernomyrdin as heir

By John Thornhill and Charles Clover in Moscow

President Boris Yeltsin yesterday urged his fellow Russians to rally round Victor Chernomyrdin as the country's acting prime minister, anointing the 60-year-old former gas industry boss as his political heir.

Mr Yeltsin said Mr Chernomyrdin's "experience and weight" were needed to help Russia overcome its current financial turmoil and ensure "the continuity of authority in the year 2000", when the next presidential elections are due.

"The principal merits of Victor Stepanovich are integrity, honesty and sturdiness. I think these qualities will become the decisive argument in the presidential elections," Mr Yeltsin said in a television address. He fired Sergei Kiriyenko as prime minister on Sunday night.

Gennady Zyuganov, the leader of the Communists, the biggest faction in parliament, predicted that health worries would force Mr Yeltsin from his office within weeks. He indicated that he might support Mr Chernomyrdin's candidacy. Mr Chernomyrdin immediately opened talks yesterday with leaders across the political spectrum to form a new coalition government and win parliamentary approval. But some opposition politicians criticised his appointment, saying the man most closely associated with the government's failed economic policies for the past five years was not the right leader to take Russia into the next century.

With the backing of President Boris Yeltsin, Victor Chernomyrdin, Russia's acting prime minister, heads his cabinet yesterday — Picture: AP

Some of the leading liberal reformers in the previous government, such as Boris Nemtsov and Mr Kiriyenko, also made clear they would not serve in Mr Chernomyrdin's cabinet, suggesting the country's powerful corporate and banking elite, known as "oligarchs", had been behind his appointment.

Foreign leaders publicly welcomed the return of Mr Chernomyrdin, who is well known on the international stage. The US administration confirmed that President Bill Clinton would still go ahead with a visit to Moscow on September 1 in spite of Russia's political and economic turmoil.

But diplomats privately expressed concerns that Russia's economic reform programme might now veer off course and lead to the International Monetary Fund suspending its lending programme.

Shares registered rare gains yesterday, closing up 6 per cent, while the domestic share price of Gazprom, the giant gas monopoly which Mr Chernomyrdin used to head, shot up by 22 per cent.

"Naive investors equate Chernomyrdin with stability," said Dirk Damrau, head of research at MFK Renaissance, a Moscow-based investment bank.

In an attempt to justify his decision to reinstate Mr Chernomyrdin after sacking him in March, Mr Yeltsin said: "Five months ago no-one expected the world financial crisis to hit Russia so hard, no one expected the economic situation in Russia to become so complex. In these circumstances, the key priority is to prevent sliding back and to ensure stability."

Anatoly Chubais, Russia's chief loan negotiator, warned that the country faced unprecedented economic dangers in the coming weeks. "The fate of the country rests on whether or not the new Russian government is able to resist these dangers," he said.

"We have already witnessed the huge losses which the country suffered after March 23 [when Mr Chernomyrdin was sacked] when there was virtually no government for a month and a half. Now the situation is many times more difficult," he said.

Chechnya policy doubts, Page 2
Lengthening shadows, Page 13
Lex, Page 14

Congo break-up as Angolans pour in

By Michela Wrong in Kigali, Victor Mallet in Johannesburg, and Michael Holman in London

Angola's large-scale military intervention in Democratic Republic of Congo yesterday left Africa's third largest nation facing partition and marked the collapse of southern African attempts at regional co-operation.

With tanks, trucks and armoured personnel carriers pouring into Congo from the Angolan enclave of Cabinda, trapped and outnumbered rebel forces faced a rout in the west but retained the upper hand elsewhere in the country.

Congo appeared doomed to division into a rebel-held eastern zone supported by neighbouring Rwanda and Uganda, and western Congo, backed by Angola and Zimbabwe, which have defied the call of South African President Nelson Mandela to avoid becoming involved in the war.

In a separate diplomatic initiative yesterday, Howard Wolpe, the US special envoy trying to mediate an end to the fighting, met President Jose Eduardo dos Santos in the Angolan capital.

Eyewitnesses in Cabinda reported that Angola mounted its operation to rescue Congolese President Laurent Kabila's government even as southern African leaders meeting under Mr Mandela's chairmanship in Pretoria were calling for an immediate ceasefire.

"On Saturday and Sunday the convoys were so long that they started moving out at 5am and carried on until 6pm. The same thing is happening today," said one resident.

The development dealt a blow to Mr Mandela's moral authority and to hopes that South Africa would be able to play a stabilising role in the region.

Mr Mandela, who on Sunday won the backing of 14 South African Development Community (SADC) nations for his 10-point phased peace plan, yesterday sought to downplay his rebuff.

He said Angolan President Dos Santos had given a commitment that his troops would not move beyond Kitona, the airfield providing the rebels with a crucial supply line to their eastern bases "because they want a ceasefire".

But Luanda's forces were reported to be continuing their thrust east towards Kinshasa while, privately, South African officials conceded that the Angolan offensive "defeats what we're trying to achieve".

The intervention of Angola and Zimbabwe, which has sent troops to boost Kinshasa's defences, is likely to lead to Rwanda and Uganda raising their involvement in the war. Both have played a covert role so far. They recently warned they would come out openly on the rebel side if their interests were threatened.

Rebel threat to power, Page 4

WORLD MARKETS

STOCK MARKET INDICES		
New York:		
Dow Jones Ind Av	8544.21	(+10.56)
NASDAQ Composite	1791.14	(-6.47)
Europe and Far East		
CAC40	3,937.43	(-6.25)
DAX	5,234.86	(+71.37)
FTSE 100	5,553.7	(+75.7)
Nikkei	14,988.36	(-309.84)
US RATES		
Federal Funds	5.5%	(5.46%)
3-mth Treas Bills: Yld	5.05%	(5.007%)
Long Bond	100¼	(100¼)
Yield	5.47%	(5.462%)
OTHER RATES		
UK: 3-mo Interbank	7⅝%	(same)
UK: 10 yr Gilt	112.7813	(112.761)
France: 10 yr OAT	106.49	(106.46)
Germany: 10 yr Bund	107.28	(107.27)
Japan: 10 yr JGB	112.19	(112.23)
NORTH SEA OIL (Argus)		
Brent Dated	$12.29½	(12.04)

GOLD		
New York: Comex		
Aug	$286.0	(285.2)
London:		
	$285.25	(285.45)
EXCHANGE RATES		
Dollar		
New York:		
£	1.6407	(1.6375)
DM	1.79575	(1.797)
FFr	6.0185	(6.025)
SFr	1.49935	(1.5025)
Y	143.76	(144.65)
London:		
£	1.6385	(1.6315)
DM	1.7964	(1.8023)
FFr	6.0213	(6.0413)
SFr	1.5008	(1.5072)
Y	143.82	(145.24)
Tokyo Close		Y 144.41
Sterling		
DM	2.9451	(2.9405)

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Chicago · Los Angeles · Tokyo · Hong Kong

CONTENTS

WORLD NEWS

EUROPE

Moscow delays giving details of $40bn debt restructuring

By Jeremy Grant in London and Charles Clover in Moscow

Foreign investors were yesterday left in the dark over how Moscow plans to restructure $40bn in domestic debt after the new Russian government delayed an announcement of how the scheme will work.

It was the second time Moscow had postponed the exchange of short-term rouble-denominated treasury bills (GKOs), which is seen as crucial to alleviating its crippling debt burden and restoring confidence in Russia's battered markets.

Victor Chernomyrdin, the new prime minister, yesterday met members of his predecessor's cabinet to go over the plan to convert GKOs due by the end of next year into longer-dated debt. At the meeting, he said a decision on the restructuring was "very much awaited" and "one must not delay it". But there was no sign last night of what the next step would be.

Meanwhile, bankers were unimpressed with the results of a meeting between Russian central bank officials to discuss the terms of a 90-day moratorium on repayments of foreign commercial debts. The meeting had been expected to clear up key details of the moratorium.

The central bank said a working group would be formed in September to deal with the moratorium, after a list of creditors and borrowers had been drawn up. However, some bankers said there had been no decision to form any such group. The central bank also discouraged western banks from using "unilateral actions" such as freezing Russian bank accounts, in retaliation for the moratorium.

Foreign bankers gave mixed reactions to the latest developments on the GKO swap. Nerves were frayed last week when the plan was put off after fears that it might discriminate against non-resident holders of the debt. They have already accepted they stand to lose money whatever form the swap takes. Non-residents are thought to hold about $17bn of the GKO market.

"People already know that there's bad news on the way but it's still better to get the specifics of what one's dealing with than have continued uncertainty," said David Simmonds, head of eastern and central European research at Citibank.

Most bankers expected the restructuring terms to be announced within days.

Some said the delay could give the International Monetary Fund an opportunity to make its views known. It has made no recent public comment on the GKO exchange but is understood to be concerned about how the swap will affect Russia's ability to stick to its pledges on fiscal reform, as laid out in the IMF's recent $22.6bn rescue package. "I don't have any doubt that the future of the IMF package hinges in part on the debt programme," one banker said.

See Comment and Analysis
See Lex

Policy towards Chechnya in doubt

By Carlotta Gall in Grozny, Chechnya

One of the victims of the dismissal of the Russian government is the territory of Chechnya, still devastated by its war with Russia, which killed more than 60,000 people.

The breakaway republic had looked set to end its two years of economic isolation since the war ended, when the Russian government recently signalled it had no objections to Chechnya seeking direct foreign aid and investment.

But this change in the Russian stance has been put into doubt by the return of Victor Chernomyrdin, who headed the Moscow government during the war and did little for the Chechens thereafter.

Aslan Maskhadov, Chechen president, received the green light from the Russian government to woo foreign aid and investment two weeks ago during his visit to the US. "Russia has said there will be absolutely no impediments and it is even going to provide credit guarantees," said a presidential spokesman in Grozny.

The step marked a U-turn in policy towards Chechnya, and reflected greater realism from a Russian government in no position to fund post-war reconstruction.

Since its troops withdrew in defeat from Chechnya, Russia has attempted to bring the rebellious republic under control through economic leverage.

Officials have insisted that only Russia has the right to assist Chechnya, but its inability even to pay pensions has forced the Chechen government to look elsewhere.

The US government has offered to supply wheat to Chechnya in humanitarian aid. If the deal goes ahead it will be the first government-to-government aid Chechnya has received.

The Chechens, who hope to get 25,000-50,000 tons to help them through the winter, also see the deal as a step towards establishing international relations with foreign governments as a precursor to recognition of their independence.

In an interview last week Mr Maskhadov said his main aim remained to win recognition for his country of 1m people. "Freedom is not given, you have to seize it," he said.

But a Chechen spokesman yesterday said they were unaware of what Russia's policy towards the republic would now be. "We are not expecting anything good," one of them said.

Spiralling crime and instability in the North Caucasus remain a deterrent for investors. Mr Maskhadov, who was nearly killed in a car bomb attack a month ago, is struggling to contain the violence.

NEWS DIGEST

CURRENCY LEFT TO FLOAT

Norwegian central bank ends defence of krone

Norway's central bank yesterday called a halt to its defence of the embattled krone after increasing interest rates for the seventh time this year.

The bank – which raised benchmark interest rates by 1.5 percentage points last Friday – increased deposit and overnight lending rates by a further point yesterday to 8 per cent and 10 per cent respectively after seeing the krone fall to a new six-year low against the Ecu.

Nevertheless, Kjell Storvik, the central bank governor, said: "There will be no more adjustments in interest rates for the time being." The move in effect allows the currency to float and signals an end to the bank's unstated strategy of supporting the krone whenever it weakened beyond 105 against the Ecu Index of European currencies.

Since mid-July the central bank has spent NKr5.5bn ($720m) to prop up the currency, but economists in Oslo yesterday interpreted Mr Storvik's comments as the death-knell of that strategy, at least in the medium term.

Following the rise the krone ended the day at NKr4.355 against the D-Mark in London, down from NKr4.294 on the day, and at NKr7.79 against the US dollar (NKr7.76).

Several economists predicted a period of currency stability, but warned that the combination of high interest rates and declining oil surpluses increased the likelihood of an economic downturn next year. **Tim Burt, Stockholm**

See Currencies and Lex

NAZI GOLD

New demands on Vatican

The Vatican yesterday faced renewed demands that it should open its files relating to gold and other assets stolen by the Nazis during the second world war.

Lord Mackay, the chairman of last December's international conference in London on Nazi gold, spoke of the "importance of the opening of archives" in allowing the loot to be traced. Writing in the conference report, published yesterday, the former UK government official said the Vatican was asked to publish wartime and post-war archives, but did not respond.

At a press conference Lord Mackay said a fund to support needy victims of Nazi persecution now stood at £36m ($60m), of which the US, the Netherlands and Austria were among the main donors. **George Parker, London**

See Comment and Analysis page

● Creditanstalt bank of Austria said yesterday it would conduct a fresh investigation to prove it had no record of being involved in the transit of gold robbed from Jews during the war. The bank has been included in an $18bn lawsuit filed by Holocaust survivors against Deutsche Bank and Dresdner Bank in June. **Reuters, Vienna**

DIGITAL BROADCASTING

Bonn announces timetable

Germany's coalition government yesterday announced a timetable for the introduction of digital radio and television in the country. By the year 2010 around 95 per cent of televisions should be capable of receiving digital programmes, making analogue televisions obsolete, according to a report published by the commission for digital broadcasting and approved by the cabinet yesterday. The commission was set up by the government last year and comprises representatives from federal ministries, Germany's federal states, broadcasting channels, trade, industry and consumers groups.

Digital radio will be introduced as a supplement to analogue services this autumn or – at the latest – early next year. In 2003 the commission will decide when to phase out analogue radio broadcasting. **Tobias Buck, Bonn**

HOLOCAUST MEMORIAL

Germany postpones decision

Germany yesterday postponed a controversial decision on whether to build a huge memorial to the 6m Jews killed in the Holocaust until after elections on September 27.

Chancellor Helmut Kohl, a strong backer of the memorial, and Eberhard Diepgen, the Berlin mayor and a staunch opponent, agreed to the delay just one day before the city government had been due to vote on the project.

Mr Kohl has taken an intense personal interest in the showpiece project dedicated to the memory of the victims of Nazi terror, which has been in planning for 10 years amid soul-searching over its design. Mr Diepgen says it would be too grandiose, and the centre of Berlin has no historical connections to the Holocaust. **Reuters, Berlin**

Viagra set to be cleared for sale

By Neil Buckley in Brussels and Michael Peel in London

Viagra, the anti-impotence drug, could be cleared for sale in the European Union within weeks, after winning approval yesterday from an EU scientific committee.

The EU's standing committee on medicines, made up of representatives of the 15 member states, gave the go-ahead for Viagra to be marketed, clearing the way for final approval by Martin Bangemann, industry commissioner.

Commission officials suggested Mr Bangemann's decision was likely by September 15, or even earlier, allowing time for the approved instructions for the drug to be translated into 11 EU languages.

Viagra won approval from the US Food and Drug Administration in March, and has become one of the biggest-selling drugs in history. EU consumers in search of supplies have so far had to rely on internet sales, or visits to countries such as Andorra or Switzerland where the drug is available.

The approval from EU states' representatives follows a positive opinion in May from the London-based European Agency for the Evaluation of Medicinal Products (EMEA) on a marketing application from Pfizer UK, and Roerig Farmaceutici, both subsidiaries of Pfizer of the US, which developed Viagra.

The EMEA said Viagra should be available only on prescription, to men with no history of cardiac problems who have undergone a medical examination.

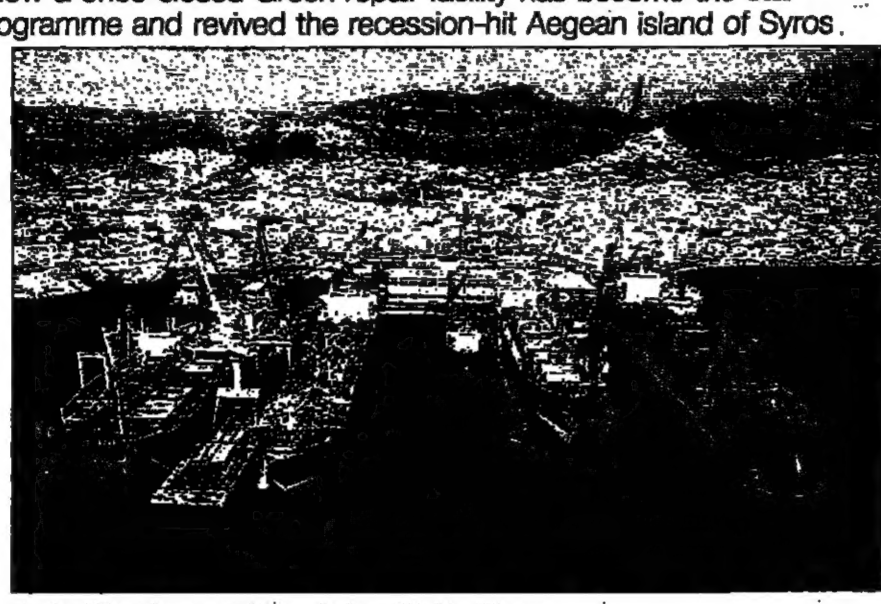
Professor Rolf Bass, head of the EMEA's human medicines evaluation unit, said yesterday's decision was the "main step" in securing final approval. But he suggested the decision was not unanimous, but had been taken to a vote. Germany, reported earlier to have concerns over the drug following the deaths of six users in the US, is understood to have pushed successfully for more information about contra-indications to be included in the instructions.

Pfizer UK called yesterday's decision "another major hurdle we have leaped over".

"We don't see anything outstanding that could ultimately prevent us from getting the licence," it said.

Sunken shipyard may soon be floated

Kerin Hope relates how a once-closed Greek repair facility has become the star of the privatisation programme and revived the recession-hit Aegean island of Syros.



Neorion Shipyards: expected to repair about 100 ships this year

Four years ago the Aegean island of Syros was sunk deep in recession. The state-owned Neorion Shipyards, the island's biggest employer, had shut down after three failed privatisation attempts, with the loss of more than 1,000 jobs.

With few sandy beaches and no first-class hotels, Syros had little hope of becoming a tourist centre to compete with its popular neighbours, Tinos and Mykonos.

Syros families were already moving to Athens in search of work when Tiama, a group of private Greek investors, acquired Neorion's assets for $9m with the goal of transforming it into the most efficient ship-repair yard in the eastern Mediterranean.

Their success has made Neorion the star of the Socialist government's privatisation programme.

After 15 years in the red, Neorion has posted annual profits between Dr1.2bn and Dr1.5bn ($4m-$5m) in the past three years. The group plans to list the yard on the Athens stock exchange next year, in what would be the first public offering by a company based on an Aegean island.

"The fundamentals were there," says Yannis Tavoularis, Neorion's director. "Syros is well located for repair-work, on the main shipping route from Suez to Gibraltar, and the yard always had a reputation for quality. But it had been managed by a succession of political appointees and nobody paid proper attention to costs."

Tiama's opportunity came when Greece was forced to comply with an EU directive abolishing government subsidies for shipyards. The Socialist government started to restructure debt-burdened yards and offer them for sale. But fierce union opposition to privatisation and restrictions on cutting jobs discouraged most buyers.

"Our investors' group was made up mostly of ex-shipyard managers who were convinced Neorion could be revived," said Mr Tavoularis. "Because the yard had been liquidated and the workers had been unemployed for two years, our relations with the union began on an entirely different basis."

The group re-hired 600 workers, offering them a 5 per cent shareholding in the yard and a 15 per cent share of annual earnings.

"Our first problem was to win back the confidence of shipowners, that Neorion could finish repairs on time," said Mr Tavoularis. "The second was that the banks wouldn't lend working capital, so we had to provide cash-flow from our own pockets for the first couple of months."

The yard is expected to repair about 100 ships this year at its facilities next to Syros port. These include dry docks that can handle vessels up to 60,000 tonnes deadweight and a computer centre providing on-line information to owners about the progress of repairs.

Neorion re-hired 150 more workers on a daily basis as it recaptured business from competitors in Turkey, Italy and Malta. A Dr2bn investment plan is under way to renew equipment and train a new generation of workers.

A Piraeus-based shipbroker says: "Neorion has managed to attract work not just from local owners but from more demanding Norwegian and German shipping companies. The scope of services has widened to include specialised vessels such as tankers carrying liquid gas, and one-off jobs that other yards in the region wouldn't attempt."

Neorion's revival has contributed to a gloss of prosperity in Syros, the administrative centre for the Cyclades islands. One family in five has a son or husband working at the yard.

New bank branches have opened, Athens-based retail chains and fast-food companies have set up franchising operations, and a high-speed ferry connection has halved the sailing time to the mainland.

Neorion's managers estimate that in addition to salaries, the yard's operations contribute about Dr5bn a year to the island's economy.

"Hotels and restaurants get year-round business because they cater for crews of ships under repair. That keeps down costs and encourages more wholesale suppliers to include Syros on the distribution map for the islands," says Dimitris Kalligeris, the yard's technical manager.

The speed of Neorion's turnround encouraged the Tiama group to bid for a bigger Greek shipyard, offered for sale last year by the government for the second time in five years. The group acquired the loss-making Eleusis Shipyards near Athens after its previous owner, the London-based Peraticos group, failed to resolve a long-running dispute with the industry ministry. However, Mr Tavoularis sees a testing time ahead for both yards as conditions deteriorate in the dry cargo segment of the international shipping industry. Freight rates were hit by the Asian crisis and an oversupply of new ships, and Greek owners are starting to lay up older vessels.

"Owners think about scrapping ships rather than repairing them when the market plunges. Some yards will be tempted to offer rates below cost in order to keep operating. We'll have to be even more careful about every drachma we spend."

Bank will leave the Irish to control their economic boom

ECB watch

By Peter Norman in Bonn

Economic indicators for euro-11 countries

	Jun 1998	May 98	Apr 98	Mar 98	Feb 98	Jan 98	1997	1996
Inflation (annual % change)†	1.4*	1.4	1.4	1.2	1.2	1.1	1.6**	2.2**
Unemployment (%)	11.2	11.3	11.3	11.3	11.4	11.4	11.6	11.6
Trade (Ecu bn)								
Exports	n/a	n/a	n/a	71.1	63.3	58.2	757.4	667.7
Imports	n/a	n/a	n/a	63.4	58.1	57.6	667.1	594.2
Trade balance	n/a	n/a	n/a	7.7	5.2	0.6	90.3	73.5
	Feb-Apr/ Nov-Jan	Jan-Mar/ Oct-Dec	Dec-Feb/ Sep-Nov	Nov-Jan/ Aug-Oct			1997	1996
Industrial production (%) (3 mo over previous 3 mo)	1.3	1.3	1.2	1.1			4.2††	-0.2††
GDP growth (%)	Q1 1998	Q4 1997	Q3 1997	Q2 1997			1997	1996
Over same quarter last year	3.5	3.0	2.7	2.9			2.5	1.8

* provisional ** estimated † unadjusted due to Ireland, which provided figures for 1997 but unadjusted monthly †† annual % change Source: Eurostat

A fall in inflation to a record low in Europe's biggest economy should, at first glance, augur well for stability in the future euro-zone.

But the possibility that Germany's year-on-year inflation rate in August could be less than July's record low of 0.9 per cent will instead add to the worries of the European Central Bank when it considers how official borrowing costs can converge to a single short-term euro interest rate at the start of 1999.

The ECB's big headache is Ireland, where the economy is booming with no sign of a slowdown despite a short-term rate of 6.75 per cent.

Inflation was a relatively high 2.7 per cent in July. Deutsche Bank Research has forecast real growth this year of 9 per cent, well above the 5 per cent growth deemed sustainable by the Irish central bank.

The feelgood factor and a sharp rise in property prices are being reflected in growing pressure for higher wages in the construction and public sectors.

Germany, while expecting 2.9 per cent growth this year, has yet to experience any significant revival of domestic demand.

The crisis in Russia is a further factor arguing against any increase in the Bundesbank's securities repurchase rate from the present 3.3 per cent. This rate, unchanged since October 1997, sets the tone for core Europe.

It is matched by the short-term rates of France, the Netherlands, Belgium and Luxembourg, while the official short-term rates of Austria and Finland are respectively 3.2 per cent and 3.4 per cent.

Ireland's misfortune does not stop at an overheating economy. Its share of the euro-zone's gross domestic product is only 1 per cent, sharply limiting its ability to influence the process of convergence towards a single official rate for the 11 euro countries.

With 19 weeks remaining before it assumes responsibility for euro-zone interest rates, the European Central Bank is making clear that its monetary policy will not be able to react to national difficulties such as the Irish boom.

Officials draw parallels between the euro-zone and Germany or the US, where regional differences in economic performance exist and go unanswered by central bank action. In the case of the US, the divergences in the business cycle of the states can range from boom to recession.

The ECB expects Ireland to take responsibility for controlling its business cycle by tightening fiscal policy. That would be politically unpopular.

But the hope is that the spectre of wage inflation will prompt the Dublin government to act.

The alternative is a powerful inflationary boom once the Irish central bank's short-term rate is replaced by what is sure to be a much lower euro rate.

Serbian fire pushes back Kosovo rebels

By Guy Dinmore in Pagarusa, Serbia

Serbian artillery yesterday hammered ethnic Albanian villages in the south-west of the province of Kosovo, forcing separatist rebels to pull back and driving thousands more civilians from their homes.

Areas near Kosovo's airport also came under heavy fire on the second day of the latest government offensive.

The hills around the key town of Suva Reka, on Kosovo's main north-south highway, reverberated with shellfire. Refugees poured into Pagarusa, a hamlet 45km southwest of the provincial capital Pristina.

Diplomats said the government was attempting to clear out villages close to main highways and push the Kosovo Liberation Army (KLA) into an ever smaller circle of land in central Kosovo. Once the villages are empty, police and paramilitary forces move in, looting and burning homes – despite assurances given by Slobodan Milosevic, the Yugoslav president, to the international community that civilians are welcome to return.

Some 50 refugees, mostly women and children, crowded into a single room in a farmhouse in Pagarusa. One of them, Musli Bytyci, described how all 1,500 inhabitants of Semetiste had fled when the bombardment began at dawn on Sunday. They had little time to gather their possessions and were short of food.

"We only want freedom, nothing that doesn't belong to us," he said. Ethnic Albanians make up some 90 per cent of Kosovo's 2m people but their demands for independence have found no support from the international community. Nato has threatened to strike in Kosovo but some member states are reluctant to take action without approval from the UN Security Council, where Russia and China are opposed to intervention.

Serbian officials said KLA "extremists" had provoked the latest operation by attacking police on the Pristina-Prizren highway and at Komorane on the main road west of the capital. One policeman was reported killed, while a Serbian journalist and his driver were missing. "The action to crush the Albanian extremist groups remaining in the region is under way," an official statement said.

Bonn proposes Belgrade sanctions

Germany yesterday proposed a package of sanctions, to be introduced with other European Union nations, to increase international pressure on Belgrade to end its offensive against ethnic Albanian Kosovans, writes **Peter Norman in Bonn.**

The cabinet decided to give the proposals a push to underline its "extreme concern about the escalation of violence" and its fears of a "humanitarian catastrophe" among refugees in the region with the onset of winter.

Bonn's call included: the blocking of accounts of all state-controlled Yugoslav or Serbian banks and companies; visa curbs on business travellers and tourists; a take-off and landing ban for Yugoslav airlines at all EU airports; and reaffirmation that all details of crimes in Kosovo are being passed to the court in The Hague dealing with war crimes in former Yugoslavia.

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STARR INQUIRY SPEAKER SAYS EVIDENCE OF 'PATTERN OF FELONIES' WOULD BE NEEDED TO IMPEACH PRESIDENT

Gingrich softens Clinton stance

By Gerard Baker in Washington

Newt Gingrich, Speaker of the US House of Representatives, yesterday sought to play down expectations of possible impeachment proceedings against President Bill Clinton, saying Mr Clinton should not be removed from office for a "single human mistake".

Mr Gingrich said he believed Congress would need evidence from Kenneth Starr, independent prosecutor, of a "pattern of felonies" by the president, encompassing matters well beyond the Monica Lewinsky sex and lying case, if it was to proceed against the president.

"I don't think the Congress could move forward only on Lewinsky, unless he [Mr Starr] had such a clear case, such an overpowering case," the speaker told the Washington Post in an interview.

Mr Gingrich's remarks contrasted sharply with some of his earlier speeches in which he lambasted the president over what he described as a consistent pattern of obstructing justice. They are also at odds with the views of some of his Republican colleagues who have suggested Mr Clinton should be impeached on the basis of what is already publicly known about his acknowledged lies in the Lewinsky affair.

Instead, Mr Gingrich appeared to be saying yesterday that Mr Starr's case would need to include detailed evidence of wrongdoing in the range of other matters he has been investigating. These include Mr and Mrs Clinton's Whitewater land deal in the late 1980s, the firing of the White House travel office in 1993, and the wrongful use of FBI files by the White House.

If that does become a condition for impeachment it will make the task of removing Mr Clinton much more difficult than hitherto thought. It is widely understood that Mr Starr's report to Congress, expected within the next month, will focus almost exclusively on possible perjury and obstruction of justice by Mr Clinton in the Lewinsky case.

He is not expected to issue a report on the other matters under investigation until much later, perhaps not until next year. And it is also widely expected that, while Mr Starr has raised plenty of questions about Mr Clinton's behaviour in those matters, he has found no clear evidence of a pattern of obstruction.

The speaker's remarks suggested Republicans remain highly nervous about moving firmly against Mr Clinton, which they fear could hurt them in November's mid-term congressional elections. Though polls suggest a growing number of Americans regard Mr Clinton's personality with distaste, they continue to approve strongly of the job he has done as president.

But Mr Gingrich's remarks also seemed designed to neutralise attacks on him as too partisan to lead an impeachment process.

His earlier attacks on the president had alarmed some Republicans, since in any impeachment it would be the speaker who would have to preside over hearings.

Gingrich: views at odds with some Republican colleagues

New moves in Mexico bank impasse

By Leslie Crawford in Mexico City

Mexico's ruling party has presented new proposals to break a five-month political impasse over the $65bn cost of rescuing the banking sector following the country's financial crisis in 1995.

On Sunday the Institutional Revolutionary party (PRI) announced a new plan which would force financial institutions to shoulder 25 per cent of the fiscal cost of the bank bailout. It also proposed replacing bank operating licences with a system of fixed-term concessions to give the government more control over banking operations.

In addition, the PRI proposed a 10bn-peso ($1.1bn) debt relief programme to help mortgage holders, farmers and small businesses unable to repay bank loans when interest rates trebled after the devaluation of the peso in December 1994.

Mariano Palacios Alcocer, leader of the PRI, said his party would table tougher laws against white collar crime to pursue government officials, bank employees and fraudsters who had abused the financial system and added to the cost of the bank bailout. Until now, President Ernesto Zedillo's government has been unable to jail bankers accused of defrauding their own banks because financial crimes in Mexico are considered a bailable offence.

The Mexican government injected large amounts of capital to prop up insolvent banks during Mexico's economic crisis, which started in December 1994. A central bank trust known as Fobaproa also acquired hundreds of billions of pesos of bad loans to clean up the balance sheets of shaky banks.

The cost of the rescue operation, however, has become the most divisive social and political issue of Mr Zedillo's presidency. In March, the government tabled legislation to consolidate the 552bn-peso cost of the rescue, currently off-budget, with Mexico's public sector debt. But legislators balked at the sum, which

Institutions would have to pay 25% of the fiscal cost of bailout

equals 14.5 per cent of gross domestic product and which would raise public debt from 28 per cent of GDP to 42 per cent.

The PRI's new proposals were welcomed by the opposition National Action and Revolutionary Democratic parties, which control the lower house of Congress.

Rogelio Sada Zambrano, a National Action congressman, said: "There is now a strong possibility of the three parties reaching a consensus over the bank bailout and financial reforms."

The National Action party announced its own proposals to deal with the banking crisis. Its plan also included tougher laws against white collar crime, a tax on financial services – to be borne by banks and bank users – to help pay for the cost of the bank bailout and debt write-offs for small debtors.

On the web today

- Fun-packed playground for Uncle Sam ● Honduras leader determined to keep firm grip on the reins
- Caracas bond and stock markets take a breather

http://www.ft.com/americas

Costa Rica in plan to open up power sector

By James Wilson in Panama

Costa Rica's President Miguel Angel Rodriguez has announced plans to open up the country's electricity market to competition.

Mr Rodriguez said he would send a bill to the national assembly this week that would allow private companies to generate power and sell it to the Instituto Costarricense de Electricidad (Ice), the state monopoly that also controls telecommunications in the country, or sell directly to large customers.

Costa Rica has lagged behind its neighbours in Central America in introducing competition into many state sectors. Mr Rodriguez, who took office in May, is trying to accelerate this process and has already announced plans to offer a cellular phone concession to compete with Ice.

However, there are no plans yet to restructure as dramatically as other countries in the region, which have sold off or plan to sell off their state utilities.

Mr Rodriguez said demand for electricity was growing at 10 per cent a year and said the country had to provide incentives to generate more power if the economy was to keep growing.

In a television address at the weekend, he also revealed tighter targets for Costa Rica's fiscal deficit, which has been one of the country's most difficult economic problems. He said the deficit would end the year at 3.72 per cent of gross domestic product, or approximately $357m, and predicted it would fall further to 1.7 per cent by the end of next year.

Mr Rodriguez said the narrowing of the deficit would help to cut inflation, expected this year to be around 12 per cent. The president also said an extraordinary budget sent to the assembly last week would cut internal debt by 10bn colons ($38m), and pledged that public spending would be cut next year by 2 per cent of gross domestic product.

MOTOR INSURANCE CLAIMS ALLSTATE TAKES AGGRESSIVE STANCE

LA doctors accused of fraud

By John Authers in New York

Allstate, one of the largest US motor insurers, yesterday sued a group of doctors and chiropractors in Los Angeles for $25m over fraudulent claims for patients with whiplash injuries.

The company has taken an aggressive stance over insurance fraud in the last two years, setting up a special investigative unit with 686 employees, and this is one of a series of lawsuits.

It launched a separate lawsuit earlier this year over faked accidents – in which people paid by a fraud ring would drive slowly in front of other cars in an attempt to create an accident, and then gain false diagnoses from doctors.

But in this case Allstate said it was suing doctors for "opportunistic" fraud, in which they overcharged for the treatment they gave to genuine victims. This involves abuse of the treatment "codes" agreed in advance between medical professional bodies and insurers for gauging fair charges for particular forms of treatment. The practice is known as "up-coding".

For example, insurers would be sent a bill for four hours of treatment when only one hour had taken place.

Dennis Kass of Manning, Marder & Wolfe, the Chicago law firm representing Allstate in the case, said: "These people are misrepresenting to the insurance companies that patients are critically injured when in fact they've just got minor bumps and bruises. They are using treatment codes that would normally be used for cancer and Aids to treat people with soft tissue injuries."

The intention is to deter similar fraud by other doctors. Allstate said it had identified 331 potentially fraudulent claims from two Los Angeles-area clinics so far but was investigating similar patterns in several other cities.

Decline in loans to big business

By Richard Wolffe in Washington and John Authers in New York

Loans to big businesses have declined for the first time since the start of 1996 as large US companies cut investment, mergers and acquisitions.

A Federal Reserve survey of bank lending over the last three months said that the slowdown among larger companies was a reversal of the trend in previous reports.

However, the survey, published yesterday, found that only 9 per cent of banks reported a decline in lending to larger businesses, at a time when loans to smaller companies remained unchanged.

Among foreign banks operating in the US, the Fed found strong evidence of a withdrawal from commercial and industrial lending over the last year.

More than half of those surveyed – 61 per cent – said the growth in such loans had slowed, mostly because of concerns over the financial health of their own parent banks.

The Fed said "substantial fractions" of foreign banks had also tightened credit standards and terms.

In consumer lending the Fed found banks had tightened standards for loans, which had cut the volume of credit card and consumer lending at around a third of US banks.

Home mortgage loans performed more strongly, as the robust housing market and brisk demand for re-financing combined to lift demand.

More than a third of banks reported increased demand for home loans, and 10 per cent said that they had eased their lending standards over the last six months.

The report's evidence of weakening trends in corporate activity could amplify Wall Street's worries about the banking sector itself. The last month has seen a dramatic sell-off of shares in banking stocks.

INTERNATIONAL

Shell declares force majeure on shipments

By Robert Corzine in London

Royal Dutch/Shell, the biggest oil producer in Nigeria, has for the first time declared force majeure on shipments from both its Bonny and Forcados crude export terminals in the Niger Delta.

Exports totalling about 800,000 b/d, or just under half of Nigeria's total crude output, have been affected by two separate incidents, according to Shell officials.

Force majeure at Bonny was declared on Saturday after a main pipeline linking inland processing plants with the coastal export terminal was sabotaged.

Investigators found that a 9mm hole had been drilled in a buried pipeline, causing an estimated 700 barrel oil spill. Shell was forced to shut down all production upstream from the leak in order to carry out repairs. Last night Shell said it expected shipments from Bonny would be disrupted for the next few days.

The company said the Forcados incident was unrelated and did not appear to be sabotage as it involved a presumed leak in a pipeline 7km offshore. Shell said an investigation team was on site, but it could give no estimate of when exports from Forcados might resume.

The operations of Shell and other joint ventures between foreign oil companies and the state-owned Nigeria National Petroleum Company in the Niger Delta are routinely interrupted by what the oil companies calls "community actions". These range from sabotage to the temporary occupation of production facilities.

The disturbances are linked to widespread resentment among local people about the long-standing neglect of the region, in spite of it being the main source of Nigeria's export earnings. "There is a deep sense of dissatisfaction in the Niger Delta," said one oil man familiar with the problems of the area. Shell yesterday said it had not detected any rise in such incidents since the death of General Sani Abacha, the former Nigerian leader, "but nor have we seen any decrease".

Many foreign oilmen are keen to see more funds directed toward the development of the area, although they say fundamental reforms may first have to be made to Ompadec, the government agency ostensibly in charge of seeing that a proportion of Nigeria's oil revenues are reserved for projects in the Delta.

The Abacha regime exercised especially tight control over oil revenues. Little money filtered down to the Delta, which is mainly inhabited by politically weak ethnic minorities. "Ompadec needs to be de-centralised" in order to be effective, said one Nigerian oil executive.

Meanwhile, the government of General Abdulsalam Abubakar, Gen Abacha's successor, has continued its reform of the oil sector with the appointment of a new head of marketing at NNPC. There has been a shake-up of the sector as the new government moves to reduce the influence of those who were close to Gen Abacha.

Congo rebels could cripple mining region

By Mark Turner in London

Rebels in control of Congo's Inga hydroelectric power station pose a potentially paralysing threat to future copper and cobalt production in Shaba, the country's mineral-rich southern province, mining analysts said yesterday.

Apart from providing power to Kinshasa, the country's capital, and neighbouring Brazzaville, which yesterday suffered their seventh day of electricity shortages, Inga supplies electricity to operations in the copperbelt almost 2,000km away.

As Angolan troops poured over the border in support of President Laurent Kabila, fears were growing that desperate rebels trapped between two armies could, in a worst-case scenario, destroy the installation and black out much of central Africa.

"There would be a human catastrophe of the highest order," said John Clemmow, an analyst from Investec Securities in London.

Since 1983 a high-tension line has connected the dam south-west of Kinshasa not only to the capital but to Shaba's copper mining centre of Kolwezi 1,750km to the south.

Further links allow Inga power to reach as far as Zimbabwe, which takes up a small amount of Congo's excess energy. From there lines are connected to the South African power grid.

At the time of its construction, the $1bn link was heralded as the longest direct current transmission line in the world.

Today its more strategic significance is all too apparent: much as the former President Mobutu Sese Seko of Zaire intended, it has become one of the world's longest rein of political and economic power.

In the short term, power would be cut to the two national capitals and Katanga, Mr Kabila's home province in the south.

In the long term, Inga's destruction could seriously undermine any hope for Congo to base an economic recovery on revitalising its copperbelt.

According to mining experts, future metal extraction projects in the south are close to totally dependent on the link.

"In our plans, 100 per cent of our power would come from Inga," said Phil Wright, president of Tenke Mining, which, together with Congo's state-owned Gecamines, is running a $475m copper-cobalt project in the south of the country.

"In the event that power should stop coming from Inga, the Congo would suffer a substantial power deficit."

"There is no doubting Inga's importance," said Earl Young from American Mineral Fields, which is at present in talks for mining rights in Congo.

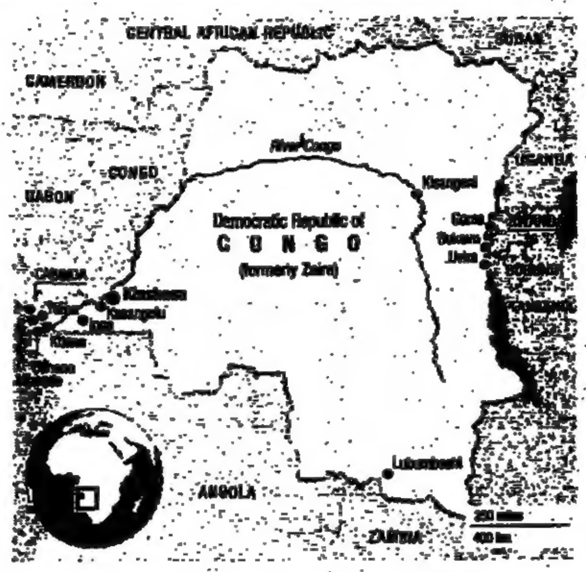
During the 1980s Congo was one of the world's leading copper and cobalt producers, with annual output as high as 475,000 tonnes and 17,000 tonnes respectively.

Following the near-total collapse of Gecamines in the early 1990s, copper production fell to less than 10 per cent of that figure last year. But Mr Kabila's arrival had raised hopes of a renaissance.

A string of recent about-faces and delays had put those hopes into question, but not deterred profit-hungry miners from maintaining links with Kinshasa. Recent events, despite claims by the mining sector that the situation is calm, could dash these hopes.

"The proposed developments in the Shaba region have gone ahead because of access to cheap energy," said Mr Clemmow. "If Inga was blown, it would make them unviable."

A policeman directs traffic in central Kinshasa yesterday as the rebel advance on the capital was reported to have been blocked Reuters



NEWS DIGEST

SOUTH AFRICAN FRAUD TRIAL

Boesak pleads not guilty to embezzlement charges

Allan Boesak, the former South African anti-apartheid cleric, pleaded not guilty yesterday to charges of embezzling foreign donor funds meant for the poor in the final years of white minority rule. Mr Boesak, 52, faces 32 charges of theft and fraud for siphoning off more than R1.1m ($173,000) of donor money, mainly from Scandinavian charities, but also from US pop singer Paul Simon and Coca-Cola's charitable arm.

Freddie Steenkamp, the accountant for Mr Boesak's Foundation for Peace and Justice charity, was jailed last year for six years after pleading guilty to similar charges.

Mr Boesak, who prosecutors said was alleged to have spent donor money on first-class travel, is also accused of using donor funds to set up a communications business for his wife, Elna, a former radio and television personality.

The accusations were first made by a Danish aid agency before South Africa's first fully democratic elections in 1994. **Reuters, Cape Town**

WEAK SECONDARY SECTOR

S African growth sluggish

Economists began downgrading their South African growth forecasts yesterday after the release of data which showed the economy grew at only a snail's pace in the second quarter.

The Central Statistical Service announced that growth in gross domestic product rose just 0.3 per cent compared with revised 0.5 per cent growth in the first quarter. "On this basis I will revise down my growth forecast for the year," said J.P. Morgan economist Peter Worthington.

Sluggish growth in the second-quarter, which was slightly higher than analysts' 0.1 per cent forecast, stemmed primarily from a weak secondary sector which includes manufacturing, electricity and construction industries. These are expected to show little improvement in the months ahead because of the recent rise in interest rates in the wake of South Africa's financial crisis.

Interest rates have risen by a third in response to a speculative attack on the rand. **Reuters, Johannesburg**

SANCTIONS REVIEW

US urges Iraqi co-operation

The US said yesterday it would request the suspension of sanctions reviews on Iraq until Baghdad renewed co-operation with UN weapons inspectors.

After Prakash Shah, UN special envoy to Baghdad, yesterday told the Security Council how he had failed to persuade Iraq to reverse its decision to freeze co-operation with the UN mission to dismantle Iraq's arsenal of deadly weapons (Unscom), Peter Burleigh, a US ambassador to the UN, said the US this week would propose a resolution, suggesting the suspension of sanctions reviews. The UK is due to back the resolution. The UN imposed sanctions after Iraq invaded Kuwait in August 1990.

Nizar Hamdoon, Iraq ambassador to the UN, said Iraq would welcome efforts by Kofi Annan, UN secretary-general, to meet Baghdad's concern. But he said Baghdad would not resume co-operation until Unscom was restructured. **Laura Silber, New York**

WORLD TRADE

Japan recession hits semiconductor market

By Gerard Baker in Washington

The foreign share of the Japanese semiconductor market dropped to its lowest level in more than a year in the first three months of 1998, the US administration reported yesterday.

The Clinton administration attributed the decline to the severity of the Japanese recession in the first quarter, but officials warned Tokyo that domestic economic weakness should not be used as an excuse for Japan to turn away from imported goods. "No longer can any country effectively compete in the international electronics industry without sourcing semiconductors from the best and most efficient suppliers," said William Daley, commerce secretary.

"Given the current economic situation in Japan, it is especially important for Japanese firms to have unfettered access to foreign suppliers."

Foreign companies' share of Japanese semiconductor sales fell to 31.7 per cent in the first quarter, from 32.7 per cent in the last three months of 1997. The first quarter's figure was the lowest since the last three months of 1996.

Total Japanese sales fell by 3.7 per cent in the first quarter, following a 10 per cent decline in the last three months of 1997, the administration said, and exports to Japan from all regions declined. US companies succeeded in maintaining their share of the Japanese market, but the big losers were Korean companies, whose sales fell by nearly one-third from the previous quarter.

The principal factor behind the drop in foreigners' share was a big fall in prices for dynamic random access memories (DRAMs). Asian companies are the leading suppliers of DRAMs to Japan, while US companies have a relatively insignificant share.

The US has published regular analysis of the Japanese semiconductor market as part of its monitoring of the 1996 agreement with Tokyo to improve international access to the Japanese market. The foreign market share had in fact been rising since the early 1990s, from 14 per cent in 1991 to 27 per cent by mid-1996.

After that the foreign share continued to rise, reaching a high of 35.8 per cent in the second quarter of last year. But since then the deepening Japanese recession has hit foreign suppliers especially hard.

"We are carefully watching the semiconductor situation in Japan, which graphically demonstrates the negative effects of the current recession/downturn in the Japanese economy," said Charlene Barshefsky, US trade representative.

But the US also said there had been further progress in securing co-operative agreements between Japanese companies and foreign semiconductor suppliers.

"We are pleased by the high level of interest shown by US suppliers and Japanese users in the industry co-operative activities taking place under the framework of the 1996... agreement," said Ms Barshefsky.

Bermuda settles C&W dispute

By Canute James in Kingston

Cable and Wireless and the Bermuda government have settled a dispute over the provision of international telecommunications services on the island, and the company has dropped a $100m lawsuit against the government which it launched after authorities granted an operating licence to a rival company.

As part of the agreement, Cable and Wireless has been given a new 15-year licence, opening up the market to competition with TeleBermuda International (TBI), which had been receiving rate protection from the government.

The company filed the writ claiming it had lost 25 per cent of its market share to TBI.

The compensation was being claimed from the government to cover losses for the removal, without the required three years' notice, of Cable and Wireless's monopoly for providing international services, a spokesman for the British company had said.

The new licence would enable Cable and Wireless to become a locally incorporated company, said Don Reed, executive director, in announcing the agreement with the Bermuda government.

"Ultimately we will be looking to invite Bermudians to become shareholders of the new company."

The agreement would encourage competition in telecommunications on the island, said Bob Richards, the telecommunications minister.

"In the near future we expect that Cable and Wireless will receive permission from the telecommunications commission to put a series of rate reductions into effect," he said.

Jeff Conyers, vice-chairman of TBI, said he was disappointed that his company had lost its protection 15 months after winning its licence.

Bangkok, Jakarta rice deal unravels

By Sander Thoenes in Jakarta and Ted Bardacke in Bangkok

Just as Indonesia is stepping up its efforts to import sufficient rice to feed its population, a 500,000 tonne purchase agreement with Thailand has come undone.

Officials in Bangkok and Jakarta say the agreement, for 400,000 tonnes purchased on commercial terms and 100,000 tonnes on a three-year deferral of payment, has not been implemented. Indonesia is interested only in the subsidised 100,000 tonnes, while Thailand will only sell 500,000 tonnes as a package.

A Foreign Ministry official in Jakarta said Indonesia had asked Thailand to sell only the 100,000 tonnes of subsidised rice. "If I want to buy two cars but I don't have cash, I just buy one," he said. "If that's not possible, we'll let them know the deal is off."

The breakdown in talks followed last week's report that Taiwan had suspended shipment of 200,000 tonnes of rice to Indonesia because of an outcry at home over the Indonesian government's response to the rape of dozens of ethnic Chinese women in Jakarta during riots in May. Indonesia has become dependent on subsidised rice shipments since drought damaged the harvests, while the collapse of the rupiah has boosted import costs.

Indonesia had said unhusked rice production was expected to fall 6.25 per cent to 46.3m tonnes in 1998 due to last year's prolonged drought. But Ginanjar Kartasasmita, co-ordinating minister for economy, finance and industry, said last week that this estimate might prove optimistic, forcing Indonesia to import even more. Last week he asked Japan for a donation of 500,000 tonnes of rice. In addition to a commitment of 500,000 tonnes.

A spokesman at the Food Logistics Agency said the government would hold a tender for 600,000 tonnes of rice on Wednesday.

Hong Kong faces a dilemma over global telecoms carriers

They are pushing to enter the territory's international market but their plans could yet be frustrated, reports Louise Lucas

Global telecoms carriers are eagerly preparing the ground to enter Hong Kong's international market when it liberalises on January 1 next year, but their plans could yet be frustrated, analysts say.

The dilemma for Hong Kong, which has accelerated deregulation as part of its pledge to the World Trade Organisation, is to meet the wishes of potential foreign players while appeasing existing local operators.

Three new telecoms companies were allowed to compete with Hongkong Telecom, the former monopoly in the domestic market, three years ago.

This entailed heavy investment for the newcomers, with little payback until they circumvented the monopoly on international calls by offering callback facilities.

Callback, whereby outgoing calls are bounced back as incoming ones, enabled the three competitors to take an estimated aggregate 20 per cent market share of the international market.

However, said Dylan Tinker, regional telecoms analyst at Jardine Fleming Securities, the right to enter callback was a clear *quid pro quo* for obligations to build local lines.

"The telecoms regulator will never say it's a cross-subsidy, but these operators got into the local game because they wanted to get into the IDD [international direct dialling] game, and that's where the money was," he added.

"That's why these fixed-line operators will feel betrayed if the foreign newcomers do not have the same conditionality."

"Betrayed" may be putting it mildly. New T&T, which three years ago won one of the three fixed-line licences, notes it has laid more than 700km of fibre, connected more than 170 of the prime buildings to that backbone, and installed 45,000 operational lines.

By contrast, claimed Leslie Harris, president of New T&T, the foreign carriers' goal is to come in and install some small rings around the prime business district of Central, home to the big investment banks and multinationals.

"That's a way to allow the global telecom companies to siphon money out of Hong Kong without really investing – making an investment of a couple of hundred million Hong Kong dollars – while we are investing HK$6.5bn [US$844m] because we are committed to building infrastructure throughout the territory."

Foreign carriers dispute this. Apart from anything else, noted Mark Smith, managing director North East Asia for British Telecom, the days of customers being concentrated in a cluster in central districts were long past: BT's customers range from the remote New Territories, home to industrial plants, to the far-flung sea ports.

Mr Smith, like his peers, saw little reason to suspect the Office of the Telecommunications Authority (Ofta) would depart from its traditionally pro-competitive stance, and believed it would make Hong Kong one of the region's most liberal telecoms markets.

Steve Liddell, president of Worldcom Asia Pacific, described Hong Kong as being at a crossroads in the telecoms industry. "The reason it is particularly relevant that the liberalisation process continues down the right path is that it's very important for Hong Kong as a business centre."

Thus those companies – along with a slew of likely candidates including, say analysts, regional players like NTT of Japan and Singapore Telecom – are banking on receiving the green light later this year to start conducting international simple resale (ISR).

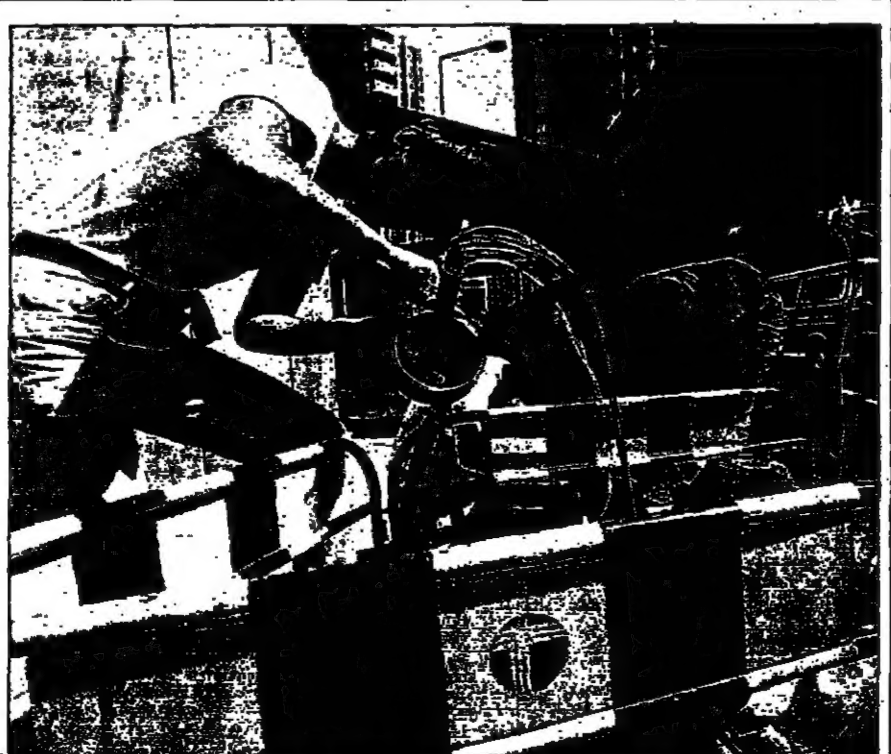
ISR, which effectively allows carriers to lease and on-sell existing telecoms capacity, will be permitted from January 1. Industry players expect Ofta to follow the trend it set with the more limited virtual private network services, and license every player that wishes to enter.

But Mr Tinker said this optimism might be misplaced, in view of the conditions which had been imposed on the three local fixed-line providers. To answer their cries of "unlevel playing field", he thought the government might impose some sort of local network tax.

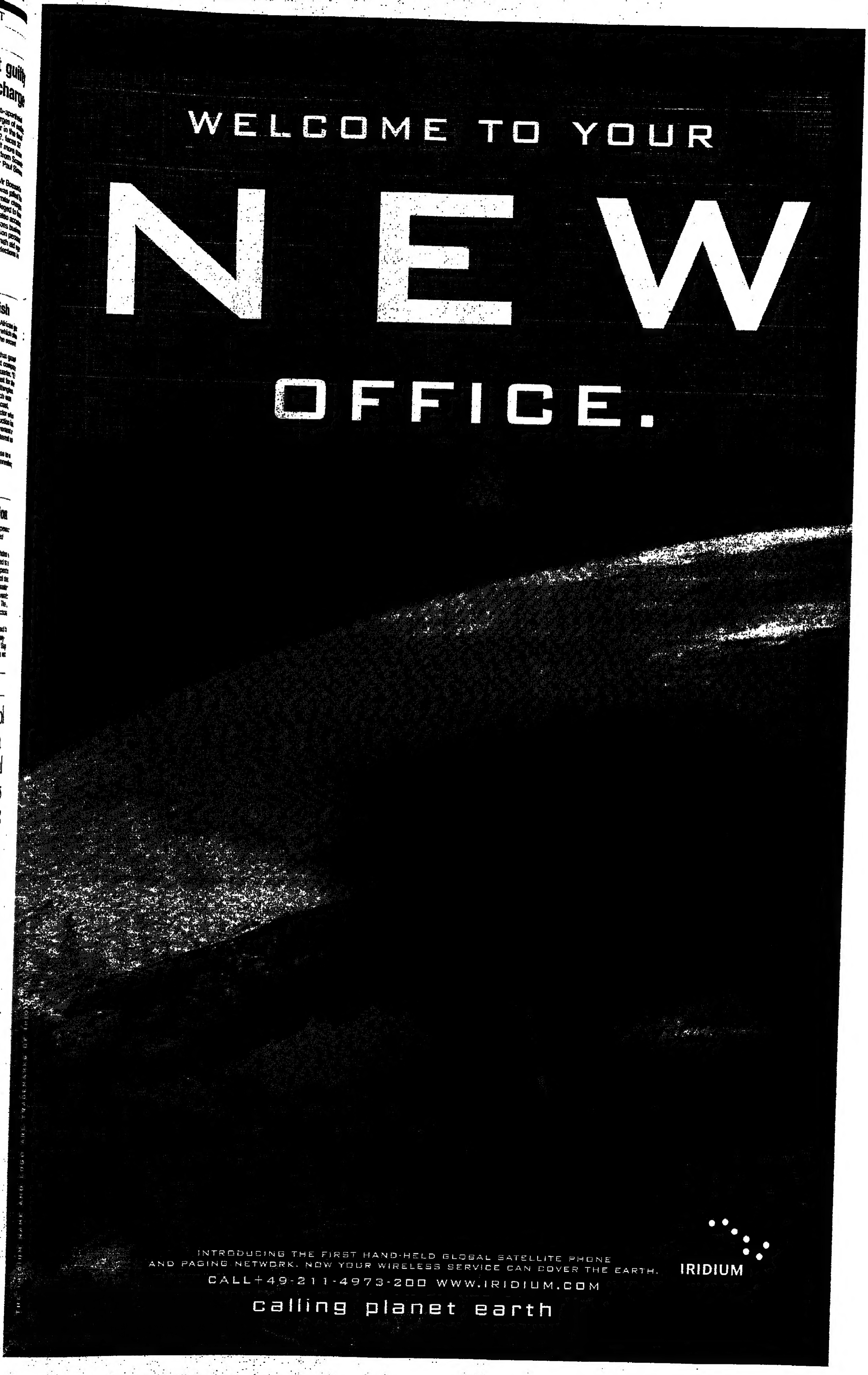
Either way it is a tough call for the government's newly established International Technology and Broadcasting Bureau.

On the one hand it must strive to ensure Hong Kong has a reputation for being open and competitive, particularly as it would attract harsh criticism if it were seen to be backing away from pro-competitive policies in the year after Hong Kong came under Chinese sovereignty. Equally the economic slowdown and high unemployment make it a sensitive time to do away with cross-subsidies, by removing curbs on the pricing of local calls (now free, with a flat rental for the line).

Of course, the local operators have their own trump cards. The three newer players are all units of some of the territory's biggest landlords: was it likely the foreign carriers would be granted access to put in their fibre? asked Mr Harris.



Global telecoms carriers are eagerly preparing the ground to enter Hong Kong's international market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End to Hyundai strike brings uneasy, perhaps costly, peace

John Burton on relief at the lack of violence and fears that labour reform has been set back

The end to the month-long strike at Hyundai Motor, South Korea's largest carmaker, restores an uneasy industrial peace to the nation's depressed economy, but could represent a setback to efforts to promote labour reforms.

The dispute was considered the first important test of whether companies would be able to sack workers after laws were passed in February, under the terms of a $58.5bn rescue package from the International Monetary Fund, ending Korea's lifetime employment guarantees.

This spring Hyundai became the first big conglomerate, or *chaebol*, to tackle the labour issue when it said nearly 8,700 workers, or 18 per cent of its workforce, would be sacked after domestic car sales plunged by 50 per cent. It succeeded in persuading 6,100 workers to accept early retirement, but strikes erupted when redundancy notices were issued to another 1,600 workers.

Under a compromise reached early yesterday, the union agreed to accept fewer than 300 job cuts in return for a promise that strike leaders would not be punished for their occupation of the Hyundai car plant in the south-east city of Ulsan. There had been fears of bloody confrontation if police had tried to disperse the 5,000 striking workers and their families.

"I'm glad it didn't end in violence, which could have triggered national labour unrest. But the deal shows the problem of introducing labour market flexibility in Korea when the scope for corporate restructuring is huge," said Mark Neale, research head at Dresdner Kleinwort Benson in Seoul.

The Federation of Korean Industries, which represents big business, expressed "serious regret over the illegal activities of the union and the fact that [redundancies] could not be enacted at the work site".

Analysts believe the deal appeared to reward union militancy and might set a precedent for other workers to resist job cuts as unemployment climbs to 7 per cent. The hardline Korean Confederation of Trade Unions (KCTU), which represents Hyundai workers, said the Hyundai incident "shows the fight by the labour unions is the only way to deter mass redundancies".

Nonetheless, the Hyundai strike might yet prove to be an isolated one since its workers are regarded as the most militant in Korea. The acrimonious management-labour relations at Hyundai are exceptional even by Korean standards.

"Workers were not treated like human beings until 1987" when unions were legalised, said Lee Jae-in, a Hyundai union leader. This has bred simmering resentment among Hyundai workers, who have staged strikes almost annually.

Moreover, there is little public sympathy for workers at Hyundai and the other *chaebol* since they are the nation's "labour aristocracy". *Chaebol* workers have not suffered many job losses, which have been concentrated so far among small businesses and financial institutions.

Hyundai Motors chairman, Chung Mong-kyu (centre), with union leader Kim Kwang-shik (right) Reuters

Attempts to stage national strikes by KCTU, the most militant of the two trade union groups, have largely fizzled out because of a lack of public support.

"We recognise the need for industrial restructuring, but we are opposed to the workers bearing the entire burden. *Chaebol* owners should share the pain by contributing to worker welfare," said Yoon Young-mo, KCTU international secretary.

The Hyundai deal appeared to achieve some of KCTU's goals. The 277 workers who will lose their jobs will receive up to nine months' compensation, while another 1,261 workers will go on 18 months' unpaid leave, with the last six months spent in job retraining schemes.

The deal was achieved after intervention by the government. Although the former political dissident Kim Dae-jung was elected president last December with labour support, aides said government mediation reflected worries that the Hyundai strike might end violently and worsen labour relations.

"We still believe that job cuts are necessary to make way for younger workers and improve productivity," said one presidential economic adviser.

The state intervention might win support from other labour groups as the government presses ahead with economic reforms. "The government's restraint in the use of force and using mediation to solve the problem differentiates it from past governments," said the moderate Federation of Korean Trade Unions.

HU JINTAO ELEVATION TO MILITARY COMMISSION FOR FORMER PARTY BOSS IN TIBET

Jiang picks his heir-apparent

By James Kynge in Beijing

China's Communist party is to anoint Hu Jintao, the vice-president, as the leading potential successor to President Jiang Zemin by appointing him to a senior military post next month, Chinese sources said yesterday.

Mr Hu, 55, is expected to become a vice-chairman of the Central Military Commission (CMC), which controls the armed forces, an unmistakable signal that he is being groomed for China's highest office.

A former party boss in Tibet who has a reputation for being both tough and reformist, Mr Hu emerged as a potential successor to Mr Jiang after he was made vice-president in March. But because that largely ceremonial post has never been a stepping stone for leaders in the past, opinion had *remained divided over Mr Hu's destiny*.

His appointment as vice-chairman of the CMC would also mark a victory for his ally, Mr Jiang, who displayed considerable daring last month by ordering the People's Liberation Army to relinquish its extensive business interests.

Hu: reputation for toughness and for being a reformer Reuters

Mr Hu would become only the second civilian in the CMC, after Mr Jiang, who heads it. The move appears to build on Mr Jiang's gradual efforts to subjugate the military to civilian rule, a design witnessed with the appointment last September of the first all-civilian politburo since the Communist revolution in 1949.

"Jiang's weakness was always thought to be his ties within the army. But by putting Hu into the central military commission, he seems to show that he is secure even with the military," according to one foreign diplomat in Beijing.

Little is known of the personality of Mr Hu, the youngest politburo member. He graduated in hyro-electric engineering at the elite Qinghua University and went on to hold a succession of influential jobs in the Communist party youth league.

In Tibet, an assignment believed to have been designed to test his mettle, he maintained stability, through crushing religious and separatist dissent.

But in spite of his uncompromising record, many Beijing citizens say he is a political reformer. A popular ditty has it that "Mao Zedong made the Communist party, Deng Xiaoping led it to its grave and Hu Jintao will bury it".

Although Mr Hu's elevation will bring greater influence and responsibility, it will also involve increased risk. Modern Chinese history is littered with heirs-apparent who never survived the cut. Mao's anointed successor, Lin Biao, died before his patron in mysterious circumstances. Deng's two hand-picked successors, Hu Yaobang and Zhao Ziyang, were both reformers and both fell by the wayside.

Suharto relative escapes kidnap court-martial

By Sander Thoenes in Jakarta

Indonesia's military leadership yesterday shied away from court-martialling the son-in-law of former president Suharto for kidnapping political activists, dismissing him instead in what many regard as a deal between the old regime and the new government.

Gen Wiranto, commander of the armed forces, said Lt Gen Prabowo Subianto, who is married to the second daughter of Mr Suharto, had been dismissed and stripped of his rank. But a spokesman insisted Mr Prabowo had been honourably discharged, while Lt Gen Muhdi and Col Chairawan, who faced a military council along with Mr Prabowo, were suspended with pay.

The investigation, held behind closed doors, was widely seen as a test of how far the military was willing to go to break with the former president and cleanse its image of 32 years of human rights abuses. Public faith in the army reached an all-time low in May, when thousands of soldiers stood by idle as looters ravaged the capital and left more than 1,000 dead.

Mr Prabowo has been widely accused of organising the shooting of four students that sparked this mayhem and of sending in paramilitary groups to instigate riots. Although there is no proof, many Indonesians believe Mr Prabowo was following Mr Suharto's instructions both during the riots and in the kidnappings.

Many had expected a court-martial for Mr Prabowo, or at least a dishonourable discharge. Gen Wiranto said only that "we didn't close our eyes to what these men have done in the past. ~~They have made~~ a lot of contributions too." He was jeered by local journalists as he left the room.

"The people won't be happy with this," said Arbi Sanit, a political analyst. "They want to try Suharto for killing so many people. If these people get off the hook, so does Suharto."

Ten more junior officers from Kopassus, the special forces unit headed by Mr Prabowo until March, are being court-martialled for kidnapping opposition activists and Gen Wiranto said Mr Prabowo might yet be tried if evidence emerged in court that he was involved.

NEWS DIGEST

GOVERNMENT SPENDS HEAVILY ON SHARES

Hong Kong retail sales decline by 16% in year

Hong Kong retail sales fell by 16 per cent year-on-year in June as rising unemployment and wealth destruction continued to put the brakes on spending. The figures, released yesterday, put down a gloomy marker for second quarter gross domestic product figures due out on Friday.

The government, meanwhile, intensified a buying spree on the local stock market. Heavy government support pushed the Hang Seng Index up 4.2 per cent to 7,845, in sharp contrast to regional markets which nearly all ended the day lower. The government has been buying heavyweight bluechips since August 14, in an attempt to chase out speculators.

Speculators had been capitalising on the automatic interest rate rise triggered by attacks on the currency, which is fixed to the US dollar, by taking positions on the futures market – in effect betting on the usually inevitable subsequent decline on the stock market.

The government sought to close this strategy first by intervening to keep interest rates down, and latterly by driving up the stock market. Yesterday, according to dealers, it was doing both, spending an estimated HK$3bn (US$388m) or more on shares. This prevented a sharp spike in interbank interest rates, although the benchmark three-month rate was still around 1 per cent up on Friday's close, at around 12 per cent. **Louise Lucas, Hong Kong**

MALAYSIAN INVESTMENT

Pilgrim fund backs company

Malaysia's national Moslem pilgrimage fund has set aside M$250m (US$59m) to buy assets of the DRB-Hicom group that have been hit by the regional financial crisis. The group is among those the authorities are eager to help as it owns Proton, the national carmaker.

Ahmad Razali Mohamed Ali, the fund's chairman, said many companies with strategic national interests had asked for help from the Tabung Haji fund. Moslems contribute to the fund in order to save for the pilgrimage to Mecca. In July, the fund had 3.28m contributors, and accumulated deposits were M$5.96bn.

Mr Ahmad said depositors should worry about the investments as their savings are guaranteed and their contributions will only be invested in ventures that are *halal*, and not associated with forbidden acts such as drinking alcohol or gambling. **Sheila McNulty, Kuala Lumpur**

VIETNAMESE TRADE

Export growth slows sharply

Vietnam's latest monthly economic statistics show a sharp fall in export growth and a further increase in the rate of inflation.

Exports during the first eight months of the year are estimated at $6.2bn, 4.9 per cent up on the same period last year, when Vietnam was recording annual export growth rates of around 25 per cent. The fall reflects falling regional demand for Vietnamese shoes, garments, sea-food and coal, while an increase in oil output has been countered by far lower world oil prices.

The annual inflation rate rose to 9.2 per cent in August, from 8.1 per cent in July, against an overall figure for 1997 of just 3.6 per cent. **Jonathan Birchall, Hanoi**

HONG KONG AIRPORT

Late start for cargo handling

Hong Kong's troubled new airport yesterday began handling all air cargo for the first time since it opened in early July, the main cargo handler said. The start of full cargo services came eight days ahead of the schedule arranged by Hong Kong Air Cargo Terminals and the government.

Serious computer and mechanical glitches at the new Chek Lap Kok airport had crippled air cargo transport, forcing the cargo handler to move parts of the operation back to the old Kai Tak airport.

Anthony Charter, the company's manager director, has said the terminal was well-prepared for the start of the territory's peak cargo handling in September.

Officials say the cargo problems might have cost the territory 0.35 per cent of 1998 gross domestic product. Cathay Pacific Airways said the problems had cost it HK$250m (US$32m) revenue in July. **AP, Hong Kong**

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

	UNITED STATES					JAPAN					GERMANY				
	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	4.2	5.4	7.65	8.84	3.61	8.4	10.4	4.43	4.77	0.54	9.7	6.4	4.34	6.46	2.61
1989	1.0	4.2	8.99	8.50	3.43	4.1	10.6	5.31	5.16	0.48	6.3	5.7	7.12	6.90	2.22
1990	3.6	5.5	8.06	8.55	3.60	2.6	8.5	7.62	6.90	0.65	4.6	4.5	8.49	8.66	2.11
1991	6.0	3.7	5.87	7.86	3.21	5.2	2.0	7.21	6.40	0.75	5.1	5.6	9.25	8.42	2.38
1992	12.5	1.9	3.75	7.00	2.95	4.5	–0.4	3.78	5.24	1.00	7.0	8.1	9.62	7.80	2.45
1993	11.6	1.1	3.22	5.86	2.78	3.0	1.4	2.95	4.18	0.87	9.4	7.8	7.28	6.47	2.11
1994	6.2	1.4	4.67	7.08	2.86	5.4	2.9	2.23	4.20	0.78	9.6	9.0	5.36	6.88	1.77
1995	–0.2	2.1	5.93	6.57	2.61	8.2	3.2	1.22	3.39	0.86	3.7	0.6	4.53	6.82	2.00
1996	–3.2	4.9	5.41	6.43	2.15	13.7	3.1	0.58	3.03	0.75	10.4	7.5	3.31	6.21	1.81
1997	–3.3	4.9	5.59	6.34	1.73	8.8	3.8	0.59	2.19	0.87	8.4	6.2	3.32	5.65	1.45
3rd qtr.1997	–3.2	5.0	5.55	6.24	1.64	8.1	2.9	0.61	2.16	0.82	9.0	5.9	3.24	5.61	1.34
4th qtr.1997	–1.2	5.7	5.63	5.90	1.60	8.6	3.8	0.66	1.75	0.96	5.5	4.7	3.68	5.48	1.42
1st qtr.1998	–0.1	6.4	5.47	5.60	1.51	9.5	4.5	0.94	1.71	0.97	5.1	3.6	3.54	5.01	1.32
2nd qtr.1998	1.1	7.2	5.50	5.59	1.42	7.9	3.4	0.64	1.42	0.99	6.3	4.0	3.61	4.89	1.22
August 1997	–2.6	5.1	5.56	6.32	1.64	8.3	3.2	0.60	2.13	0.82	9.0	6.0	3.26	5.66	1.32
September	–2.9	5.4	5.51	6.20	1.53	7.7	2.8	0.58	2.02	0.85	8.2	6.5	3.31	5.60	1.38
October	–1.8	5.6	5.55	6.02	1.60	7.9	2.9	0.53	1.79	0.90	6.5	5.1	3.58	5.58	1.37
November	–1.1	5.7	5.64	5.86	1.61	8.9	3.2	0.56	1.74	0.98	6.2	4.6	3.74	5.56	1.48
December	–0.6	5.7	5.71	5.80	1.58	8.9	3.9	0.87	1.71	1.00	3.7	4.5	3.73	5.32	1.40
January 1998	–0.7	6.0	5.47	5.54	1.59	9.7	4.5	0.95	1.74	1.00	4.4	3.6	3.57	5.12	1.38
February	–0.2	6.5	5.46	5.61	1.51	10.3	5.0	1.04	1.76	0.95	5.3	3.4	3.51	4.99	1.31
March	0.6	6.8	5.48	5.64	1.44	8.6	4.5	0.84	1.62	0.95	5.5	4.0	3.52	4.90	1.28
April	1.2	7.1	5.48	5.63	1.41	8.1	3.6	0.71	1.62	0.98	7.2	4.0	3.63	4.90	1.24
May	1.3	7.3	5.51	5.66	1.42	8.0	3.9	0.62	1.37	0.99	5.6	3.7	3.63	4.96	1.23
June	0.9	7.3	5.51	5.49	1.42	7.4	3.4	0.60	1.28	1.01	6.1	4.3	3.56	4.80	1.19
July	0.6	7.3	5.50	5.45	1.37	8.3	3.5	0.74	1.42	0.95	5.0	4.2	3.54	4.69	1.14

	FRANCE					ITALY					UNITED KINGDOM				
	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money (M0)	Broad Money (M4)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	3.9	8.2	7.94	9.08	3.69	7.8	6.1	11.24	10.54	2.71	6.8	17.1	10.41	9.62	4.48
1989	7.6	10.0	9.40	8.79	2.88	7.2	5.5	12.42	11.61	2.46	5.9	17.4	13.96	10.11	4.36
1990	3.8	9.3	10.32	9.92	3.19	9.2	7.0	11.98	11.87	2.84	5.3	15.9	14.82	11.56	5.07
1991	–4.7	2.3	9.62	9.03	3.58	7.3	5.9	11.83	13.20	3.45	2.4	7.9	11.58	10.08	4.97
1992	–0.3	5.4	10.36	8.57	3.55	6.9	3.1	13.86	13.29	3.63	2.4	5.1	9.74	9.09	4.81
1993	1.1	–3.0	8.55	6.75	3.21	4.7	2.8	10.22	11.23	2.35	4.9	3.5	5.99	7.40	4.01
1994	2.5	1.7	5.84	7.21	2.99	6.6	3.6	8.48	10.58	1.67	6.4	5.1	5.57	8.01	3.94
1995	7.2	4.3	6.60	7.53	3.17	0.4	–1.8	10.38	12.22	1.72	5.9	7.3	6.77	8.16	4.15
1996	0.6	–3.5	3.94	6.32	3.05	1.0	–0.3	8.75	9.43	2.19	6.7	10.0	6.11	7.79	4.09
1997	6.4	1.6	3.46	5.56	2.58	8.8	9.5	6.83	6.83	1.91	6.2	11.2	6.94	7.02	3.59
3rd qtr.1997	5.8	0.1	3.41	5.47	2.41	9.9	11.3	6.79	6.52	1.79	5.8	11.6	7.21	6.95	3.49
4th qtr.1997	6.4	1.6	3.65	5.49	2.48	8.1	10.4	6.35	6.02	1.69	6.6	11.0	7.58	6.46	3.37
1st qtr.1998	9.4	4.1	3.58	5.03	2.23	8.9	9.1	5.89	5.36	1.33	6.9	10.2	7.55	6.02	3.05
2nd qtr.1998	10.2	5.1	3.60	4.95	1.98	13.4	10.2	5.11	5.16	1.23	6.1	9.6	7.57	5.80	2.85
August 1997	5.6	–0.1	3.43	5.53	2.41	11.0	11.6	6.85	6.67	1.80	5.0	11.5	7.25	7.05	3.48
September	5.8	0.1	3.41	5.47	2.42	9.0	11.5	6.83	6.36	1.72	5.9	11.5	7.31	6.78	3.41
October	7.8	0.8	3.59	5.59	2.43	9.1	11.2	6.62	6.21	1.68	6.3	10.8	7.38	6.47	3.31
November	6.9	0.7	3.69	5.58	2.57	7.6	10.2	6.44	6.14	1.74	6.8	10.5	7.65	6.59	3.47
December	6.4	1.6	3.69	5.33	2.44	7.7	9.7	6.01	5.74	1.66	6.7	11.7	7.71	6.33	3.33
January 1998	8.4	3.4	3.62	5.13	2.36	8.0	9.1	6.03	5.50	1.47	6.9	10.6	7.57	6.08	3.24
February	11.8	4.5	3.57	5.01	2.23	8.5	9.1	6.09	5.38	1.34	7.1	10.3	7.53	6.02	3.02
March	9.4	4.1	3.57	4.94	2.09	10.1	9.0	5.56	5.21	1.19	6.6	9.6	7.57	5.96	2.89
April	10.7	4.7	3.63	4.95	2.04	12.9	9.7	5.18	5.16	1.13	6.7	10.2	7.51	5.80	2.82
May	10.6	4.7	3.61	5.02	1.98	12.7	10.2	5.07	5.22	1.26	6.3	9.3	7.48	5.84	2.84
June	10.2	5.1	3.57	4.86	1.93	14.5	10.8	5.10	5.10	1.31	5.4	9.1	7.72	5.77	2.90
July			3.56	4.79	1.94			4.85	4.98	1.28	5.8	10.0	7.80	5.84	2.87

Monetary growth rates show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Interest rates: short-term, period averages of US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-lira, UK – 3-month Libor; long-term, period average yields on 10-year benchmark government bonds. Interest rates supplied by Datastream. Equity market yields: period averages of the gross dividend yield on the relevant FT-A world index.

Ticking of Burma's time bomb quickens

The military regime has failed to find a way to deal with the likely political change, writes **Ted Bardacke**

Her supplies exhausted and her health deteriorating, Burmese democracy activist Aung San Suu Kyi returned to her Rangoon home yesterday after 13 days in a roadside stand-off with the country's military government, which *has* banned her from travelling outside the capital.

The military's refusal to heed Ms Suu Kyi's demand to free hundreds of her colleagues arrested in the past four months and the junta's insinuation that her protest was a mere "camping holiday" suggest the country's stalemate is as solid as ever. But changes are sweeping through Burma so rapidly that a political transition appears to be in the offing.

That transition could be to something worse. In the past decade the 19-member military clique *has* used sometimes violent ways to defuse tension and construct a new veneer of political stability around an ever-shrinking hope of political reform. What the junta has not found is a workable blueprint for long-term stability. Now it appears too late to draw one up.

Thus Burma's time bomb is ticking. Yesterday hundreds of student supporters of Ms Suu Kyi's National League for Democracy (NLD) took to the streets in a rare and bold display of defiance and discontent. Many of them escaped a rush of riot police, virtually guaranteeing more demonstrations.

Meanwhile the economy is in a shambles, as bad as the recession of the mid-1980s that culminated in violent street demonstrations. No political reconciliation has followed the long-crafted ceasefires with the country's 16 armed ethnic minority groups, who are growing restless in their autonomous zones. The NLD, under pressure from its broad base of *domestic support, is showing* a rare feistiness that has the junta on the defensive. And with the military essentially operating in permanent crisis mode, previously insignificant internal splits are becoming more pronounced.

Burma's economy is in such disrepair that Mandalay, the country's second-largest city and commercial hub, is without electricity three days of every four. This year's rice harvest is expected to be half that of last year. Foreign currency reserves are thought to have dipped to less than two weeks of imports, now subjected to an ineffective ban.

The military seems impervious to the fact that political flexibility could help the economy. Not long ago it persuaded Malaysia to accept some beans and pulses as part payment for much-needed petrol; it then refused to issue a visa to a high-ranking Malaysian diplomat nominated by the UN to help construct a framework for negotiations between the government and the opposition.

While the economic collapse is hurting the army's pocketbook and stirring up resentment, perhaps its most profound effect has been with the minority ethnic groups. They were supposed to get financial help in exchange for pledging allegiance to the Rangoon government. But a wave of *investment* went into now-empty hotels in the capital rather than into development projects in the poor periphery. As a result the military has been unable to draft a constitution, which requires the minority groups' tacit support.

'If the country's problems were just political they could deal with them'

"If the country's problems were just political they could deal with them," says one western diplomat. "But they haven't capitalised on the time and opportunities they bought with a few years of economic progress."

The NLD has stepped into this pool of frustration. It has invited the ethnic groups to send representatives to a parliament it is planning to convene soon based on the results of the 1990 election, which the NLD won by a large margin. An NLD-ethnic group alliance has always been the regime's biggest fear.

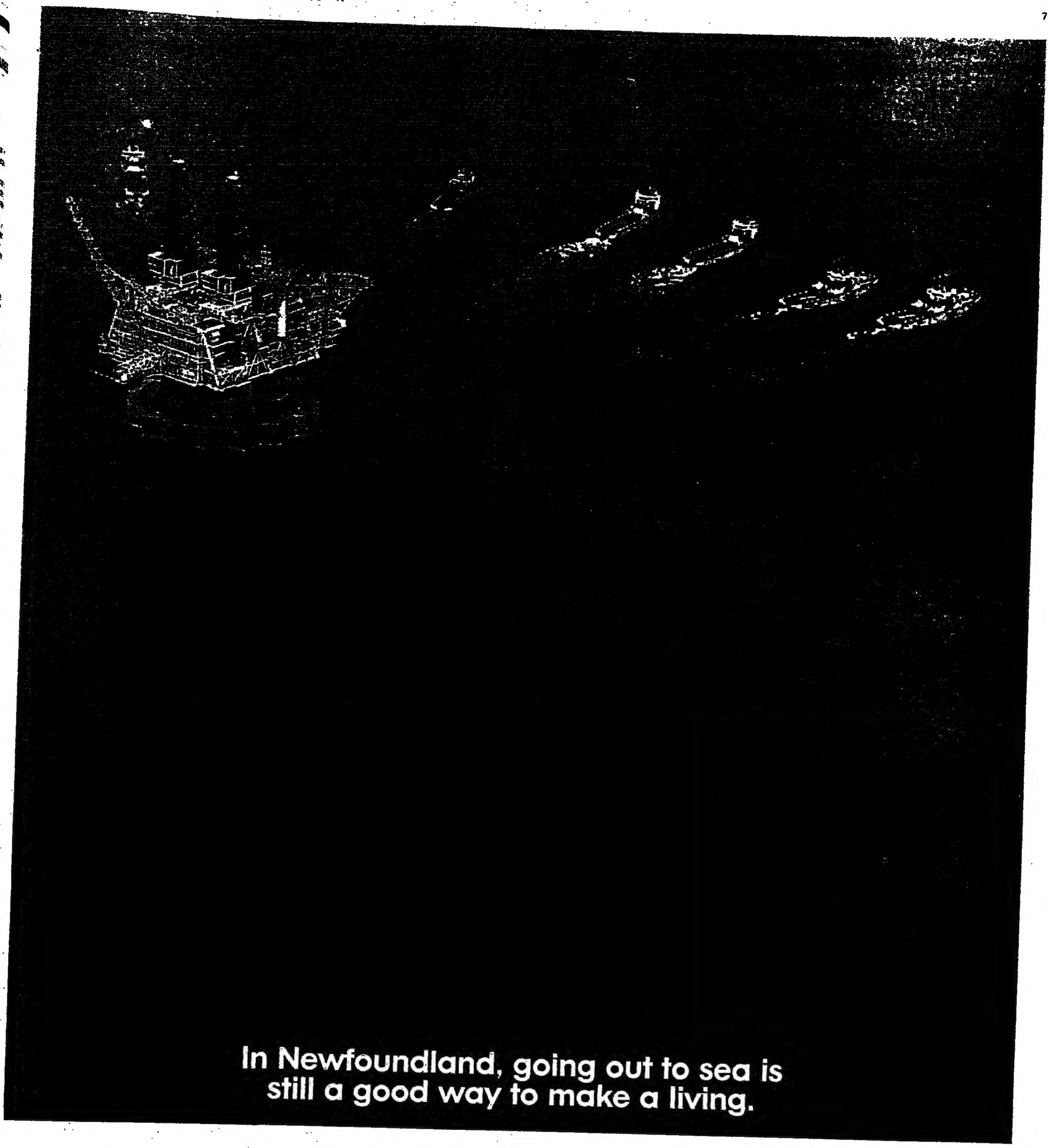
"In a triangle power play, the two sides who act together are usually more powerful," says one Rangoon political observer.

This power shift would require the NLD to flex some political muscle of its own. Its leadership has been wary of outright confrontation. Most of its senior leaders have suffered Burma's overcrowded jails. Now, with many party stalwarts jailed, younger and more restless activists – such as yesterday's student demonstrators – have come to the fore.

The junta tried last week to take advantage of Ms Suu Kyi's absence and called in the nominal NLD chairman for a 45-minute "confidence-building" meeting. It would not have liked what it heard: release political prisoners, talk directly to Ms Suu Kyi and allow the NLD the freedom to organise.

Capitulating to these demands would require a leap of faith that even a practical leader such as Indonesia's former president Suharto – who before this year the Burmese military thought it was trying to emulate – was unable to make. True to form, the military threatens to arrest anyone who tries to organise the parliament, while moderates in military intelligence yesterday pleaded in a private meeting with some senior NLD leaders not to provoke their hardline brethren.

"The government hopes sincerely to continue meetings started last week with the NLD . . . and would be disappointed if radical and provocative actions by NLD leaders made further discussions impossible," a military intelligence official said.



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Boeing 747 considered as future warplane

By Alexander Nicoll, Defence Correspondent

Versions of passenger aircraft such as the Boeing 747 and Airbus could be used as launch platforms for cruise missiles in futuristic studies being carried out into Britain's needs for offensive aircraft in 20 years.

Such is that time it takes to develop new aircraft that the Ministry of Defence has already commissioned a number of studies into the "Future Offensive Air System" (FOAS) which would replace the Royal Air Force's fleet of *Tornado GR4* long-range bombers from about 2018.

British Aerospace said yesterday it would recommend a mix of vehicles, including manned and unmanned aircraft and conventional air-launched cruise missiles.

Among potential launch vehicles for missiles would be variants of Airbus, the Boeing 747 or 757, as well as military transports such as Lockheed Martin's C-130 Hercules, the Boeing C-17 and the Future Large Aircraft, a European design still on the drawing board.

An advantage of using a modified passenger aircraft – which would operate a long way from the scene of combat like the US ships which launched missile attacks last week – would be that it could carry more missiles than existing military transports, said Martin Blaze, BAe's project director for FOAS.

Although BAe and other European aircraft builders are only just beginning production of Eurofighter, the multi-role combat aircraft, companies are looking to develop the technology needed to meet future military requirements which are vital for their longer-term health.

BAe is closely collaborating with Dassault Aviation of France as well as with GEC, Rolls-Royce, Smiths Industries and other British companies on technology for FOAS.

The UK defence ministry has already awarded contracts worth £35m ($57.75m) for feasibility studies, and industry is estimated to have spent considerably more than this on developing future systems. For manned aircraft, BAe is studying new designs, adapting Eurofighter to fly over longer ranges, and Tornado derivatives. The MoD is carrying out parallel studies into using the Joint Strike Fighter (JSF) being developed in the US and the US F-22 and F-117.

BAe executives and ministry officials said the decision on manned aircraft for FOAS, not expected for some years, would take into account whatever was decided for aircraft to equip Britain's two new aircraft carriers from 2012 – for which the JSF and a modified Eurofighter will be among the options.

The most futuristic designs are for unmanned aircraft, which would be controlled from the ground, perhaps by a pilot in a ground-based cockpit using information from the aircraft's sensors. Competing studies are under way into such combat air vehicles.

FORMER STATE MONOPOLIES NEWLY-PRIVATISED COMPANIES FACE CHANGES IN CUSTOMER CHOICE AND MAY HAVE TO SHARE PIPEWORK

Regulator to boost water competition

By Brian Groom in London

An assault on one of the last so-called "natural" monopolies in England and Wales, the water supply industry, has been signalled by Ian Byatt, the industry's regulator. But Mr Byatt faces formidable obstacles, as does the government, if it accepts his arguments.

By raising the issue, however, he may begin to answer the question: if competition can be introduced for the former state-owned telephones, gas and electricity, why not for water supply, much of which has also been privatised in recent years?

The prospect of householders choosing their supplier remains distant. Mr Byatt proposes a first step – the extension of choice for business users. Even this is controversial among the 10 privatised water and sewerage groups and 18 smaller water supply companies, which could face substantial declines in revenue.

Since privatisation nine years ago, the only opportunity has been for business customers who use more than 250 megalitres a year to choose an alternative to their local water company. So far, just two "inset appointments", as they are called, have been made. Buxted Chicken in eastern England is taking supplies from Anglian Water instead of Essex and Suffolk Water, while the Royal Air Force base at Finningley near Doncaster in northern England is supplied by Anglian instead of Yorkshire.

Enviro-logic, a recently created company, has 29 applications pending and expects approval soon to win the right to supply Shotton Paper in north Wales, replacing Welsh Water.

Mr Byatt wants to reduce the threshold to 100 megalitres, which could bring in hundreds more factories, hospitals and offices. His most controversial proposal, however, is for "common carriage" – requiring water companies to open their pipes for rivals to use.

Water UK, representing water companies, says this raises serious technical and legal issues.

"If there was an outbreak of crypto-sporidium and 20 companies were putting water into a network, how would you tell which was responsible and who would be liable?" Directors of companies supplying water which is unfit for consumption face unlimited fines or up to two years' imprisonment.

Water quality could be affected by mixing supplies. There would be arguments about who was responsible for leakages. New companies would cherry-pick lucrative contracts, raising the possibility of higher prices for customers in hard-to-supply areas.

Mr Byatt says these "are not insurmountable problems and I am keen to make progress". Much would depend on the legal framework and the charging structure for common carriage.

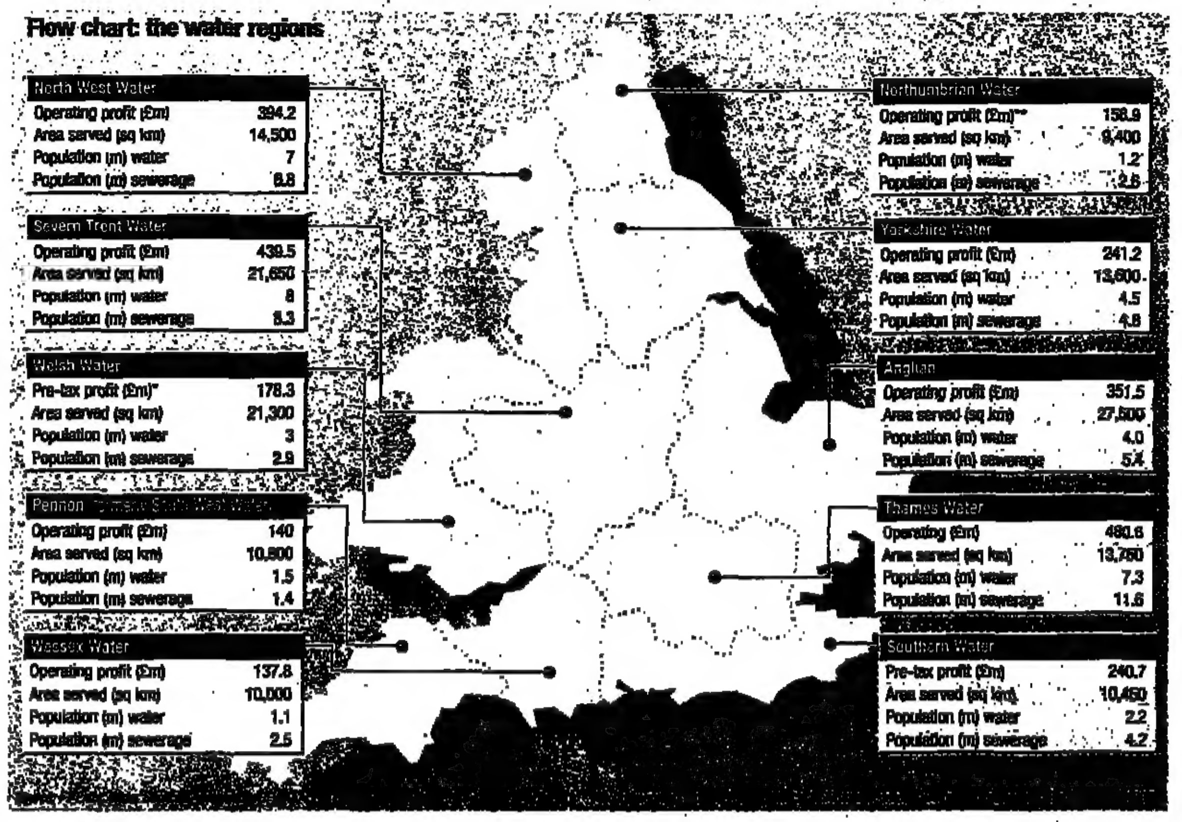
Tony Jones, Enviro-logic's commercial director, applauds the regulator's cautious approach, and says the issues could be tested by allowing common carriage in specific locations where water-saving benefits were demonstrated.

The government, which will not decide for some months, is in favour of the proposal as long as there are benefits to consumers and the environment. Mr Byatt believes pipeline monopolies could be challenged under the government's Competition Bill, which is due to become law in November, though there is debate about this.

The introduction of common carriage would raise the long-term question of offering choice to householders, perhaps in regional grids rather than a national one.

The financial impact, though, will be gradual. "It might knock £2m-£3m ($3.3m-$4.9m) off companies' profits but not £10m-£20m," says Bruce Bromley of Credit Lyonnais. The industry expects a £300m bonanza when the Ministry of Defence invites bids for supplying water and sewerage to 140 bases later this year.

Flow chart: the water regions



Airport expansion to involve US groups

By Alexander Nicoll in London

A consortium including Airport Group International, a specialist in airport management and development, and Bechtel, the US construction company, is to develop and manage for 30 years an extra terminal at Luton airport, north of London. The £100m ($165m) deal is part of a big expansion plan at the airport, known officially as London Luton.

AGI, partly owned by Lockheed Martin and backed by the financier George Soros, is a 25 per cent shareholder in the consortium, in which Barclays is playing a major role. It will be the first non-UK company to manage a British airport.

The airport, which will continue to be owned by Luton Borough Council – the local municipal body – handled a record 3.4m passengers in the year to March 31, 1998, and expects 4m in the current financial year.

The first phase of the programme, including construction of the new terminal, will raise annual capacity to 5m. Frank Pullman, the airport's chief executive, said capacity might reach 10m passengers within 10 years.

Barclays Private Equity and Barclays UK infrastructure fund each have 32.5 per cent of the consortium. The former is an arm of Barclays Capital, the investing banking division of Barclays Bank, and the latter is an investment fund managed by Barclays Private Equity. Barclays Capital underwrote debt financing for building a new terminal.

The remaining 10 per cent is held by Bechtel, which will build a new terminal designed by Foster and Partners, the architects.

Mr Pullman said: "Our overall image will change now. We already have a full mix of people using the airport and there are now more briefcases than suitcases." He hoped more scheduled carriers would go to Luton, with the possibility of the airport being used for long-haul scheduled services.

Private finance taskforce emulated in Irish republic

By Nicholas Timmins, Public Policy Editor

The UK government's Treasury taskforce for the private finance initiative (PFI) is being used as a model by the government of the Republic of Ireland to promote public/private partnerships for roads and other big infrastructure projects.

The initiative was devised by the previous UK government to secure private funding for public projects, and has been continued by the present government.

A central unit is being created in the republic's Department of Finance to launch a number of pilot projects for roads and other projects which will involve private sector expertise in design and operation and may bring in private money *to help fund them.*

The move follows an independent report by Chesterton's, the UK-based international property consultant; Farrell Grant Sparks, the accountancy and economic consultants; and Goodbody Economic Consultants which has drawn on lessons learnt from the UK and elsewhere on privately-financed public sector deals.

A pilot programme, with roads as the initial priority, is to be launched, but while the approach reflects some of the lessons learned from the UK's PFI experience, the initial projects are likely to involve both public capital, or a mix of public and private, in a model closer to some European experience rather than the purely privately-financed approach which has been a key focus in the UK.

The report, backed by Charlie McCreevy, the finance minister, and endorsed by the cabinet of the republic, argues that the republic faces at least a IR£16bn ($26bn) backlog of infrastructure work, ranging *from transport to schools,* sewerage and water treatment projects. The poor road network – particularly around Dublin, the capital, and in the east – is said to be constraining economic growth.

The republic is expecting healthy budget surpluses and does not face the acute shortage of public sector capital which has helped drive PFI elsewhere, the report says. After 2000, however, it is set to lose large sums in European Union funds which have helped drive recent growth.

Public/private partnerships could help fill that gap, while bringing the claimed PFI advantages of design innovation, better value for money and the transfer of construction and operation risks to the private sector.

Given the availability of public capital, hybrid arrangements where the private sector chiefly designs, builds and operates scheme may make more sense initially than the UK's fully-privatised PFI approach.

The finance department *said it had not been decided* whether private sector expertise will be brought into the central unit, as with the UK Treasury taskforce. The department acknowledged, however, that *"all the expertise is in the private sector."*

Parliament faces terrorism recall

By George Parker, Political Correspondent

Tony Blair is today expected to announce that parliament will be recalled next week to pass emergency anti-terrorist legislation aimed at making it easier to convict members of banned organisations.

The prime minister will announce the new security measures on a visit to Northern Ireland where he will brief political leaders on the government's response to the bomb attack by the Real IRA in Omagh town centre.

Although Mr Blair's aides refused to confirm the move last night, the government has approached opposition parties about the date of a recall, and Betty Boothroyd, the Speaker of the House of Commons, is also thought to have been consulted.

Both houses of the UK parliament are likely to sit next week, to coincide with an emergency session of the Dail, the Irish national assembly, where the government *also hopes to push* through new anti-terrorist laws.

The symbolism of the two national parliaments working in tandem to tackle hard-core terrorists will not have been lost on Mr Blair. Bertie Ahern, the Irish prime minister, last week announced a range of new measures, including curbing the right to silence and extending the maximum period of detention.

Many of the Irish measures are law in Britain, but Mr Blair believes the security forces in Northern Ireland need extra powers to secure convictions of members of groups such as Real IRA.

The powers could include allowing courts to convict a suspect of membership of a proscribed organisation on the sworn testimony of a senior police officer, the extension of telephone tapping might also be included.

It would be the first emergency session of the Commons during the summer recess since 1992, when MPs were recalled to debate *Britain's exit from the European* exchange rate mechanism.

NEWS DIGEST

MORGAN GRENFELL

Suspended ex-director is now on standards board

One of the former Morgan Grenfell directors suspended for his role in the Peter Young unit trust scandal has been appointed as a projects director for the Accounting Standards Board.

Paul Ebling was barred from working for a firm regulated by Imro, the fund management watchdog, for two years in May. He was found guilty along with three other Morgan Grenfell directors for failing to prevent Mr Young, a top-performing manager, from breaching investment guidelines. The case cost Deutsche Bank, the fund manager's parent company, £2m ($3.3m) in compensation.

Mr Ebling, the former deputy compliance officer, agreed not to apply for a senior compliance post for three years. The Imro investigation found no case of dishonesty or a lack of integrity.

Mr Ebling was appointed by the Financial Reporting Council, the umbrella body for the ASB, the accounting regulator, before the announcement of his suspension by Imro. The FRC's authority as a regulator falls outside Imro's jurisdiction. Ann Wilks, secretary to the FRC, said yesterday that Mr Ebling had "very relevant and useful expertise". **Jane Martinson, London**

GENETICALLY MODIFIED CROPS

Biotech company defends role

Monsanto, the agricultural biotechnology company at the centre of growing controversy over plant genetic engineering, yesterday defended modified crops when it invited journalists to inspect a field trial of herbicide-resistant sugar beet in eastern England yesterday. Participants had to undertake not to divulge the exact site so as not to alert the "eco-warriors" who have destroyed dozens of genetically modified crop trials in the UK this summer.

Scientists from Monsanto and from Brooms Barn, a government-sponsored agricultural research centre working with the company, have identified a wide variety of ways in which, they say, the genetically engineered beet is environmentally superior to conventional varieties. They range from reducing herbicide residues in the soil to encouraging the growth of beneficial insects and birds that feed on them. **Clive Cookson, London**

EUROPEAN PARLIAMENT ELECTIONS

Rights for non-British citizens

Citizens from other European Union countries living in the UK will be able to vote in the UK in next year's elections for the European Parliament, the British government announced yesterday. The EU statistics office Eurostat said that just over 800,000 non-British EU citizens live in the UK.

"Democratic participation across national boundaries can only help to increase goodwill and understanding within the European Union," said George Howarth, a minister at the Home Office. Application forms will be available from electoral registration officers at local council offices. EU citizens living in the UK are also entitled to stand in EU and regional elections, including elections to the planned Scottish Parliament, National Assembly for Wales and the Greater London Authority.

CONSERVATIVE EUROSCEPTICS

Former MPs face expulsion

Two former Conservative MPs face expulsion from the party unless they withdraw threats to stand as "anti-federalists" against official Conservative candidates in next year's elections to the European parliament. Party officials have disclosed that information is being compiled on Nicholas Budgen and Tony Marlow, who lost their seats in the House of Commons at the general election in May last year.

The former MPs, both of whom failed to become Conservative candidates for next May's European elections, plan to lead a breakaway faction to challenge a number of Conservative MEPs they regard as insufficiently Eurosceptic. Conservative Central Office said the party would "simply not tolerate" such behaviour. **Liam Halligan, London**

THE ECONOMY

House price rise slows

Higher interest rates and lower consumer confidence helped ease the pace of house price increases during the summer, according to the latest survey of chartered surveyors in England and Wales.

A reduced majority of chartered surveyors reported a rise in house prices in July compared with June. The report, published yesterday by the Royal Chartered Institute of Surveyors, adds to recent evidence that the UK economy is slowing down. It was the "weakest position" for house-prices for more than two years.

Price rises have slowed most markedly in London, the south-east of England and East Anglia – the areas that have enjoyed some of the fastest rate of increase since 1995. However, the number of houses coming onto the market has made a sharp upturn during the first half of this year. That could be because of sellers rushing to take advantage of what they feel may be the top of the market, according to Milan Khatri, economist at the Royal Institute. **Richard Adams, London**

See Lex in Companies & Finance: UK

Murdoch-linked TV shopping channel struggles to stock its shelves

Cable rival has beaten satellite network BSkyB to the punch by signing deals to launch armchair retailing, **John Gapper** reports

There have been few examples in recent years of British cable companies stealing a march on British Sky Broadcasting, the satellite television network. Yet last week, Cable & Wireless Communications achieved it in the arena of interactive television.

CWC has managed to establish an internet-based service that will give its customers the chance to buy goods and services next year using a television set, and has signed up companies including Barclays Bank and British Airways.

In contrast, British Interactive Broadcasting, the shopping and banking service in which BSkyB has a 32.5 per cent stake, has yet to announce firm deals with retailers. It has also lost its second chief executive.

BIB's failure to make obvious progress towards what its leading shareholder hopes will be an important source of new revenue can partly be ascribed to regulatory delay. It has only just been cleared by the European Commission.

Furthermore, it says it is proceeding behind the scenes faster than the public image suggests. However, rivals argue that BIB is also an example of a rare miscalculation by BSkyB and Rupert Murdoch's News Corporation, which holds 40 per cent of BSkyB. They say BIB is paying the price of a failed attempt to control retailers.

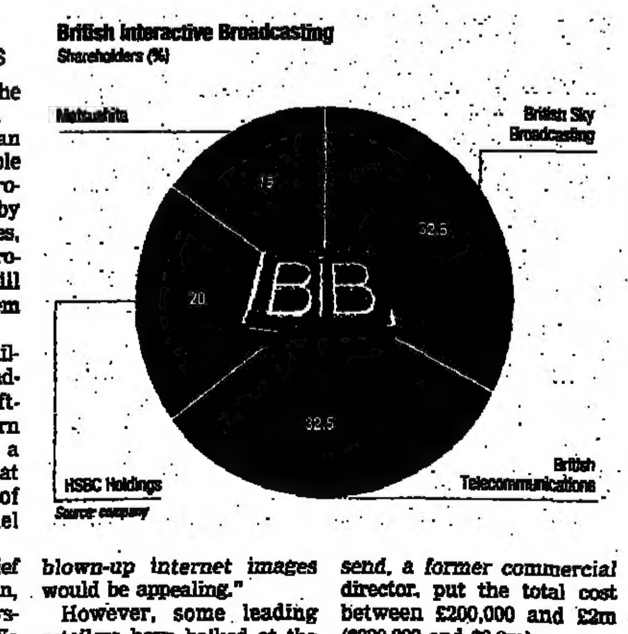
"It must have seemed a good wheeze at the time, but I think it is rapidly becoming untenable as a business proposition," says one rival television executive, arguing that the key obstacle is the technology chosen by BIB.

Rather than having an operating system compatible with the internet HTML programming language used by most retailers for web sites, it hired Oracle to write proprietary software that will run on an operating system called Open TV.

The theory was that retailers would pay for broadcasting capacity and software development in return for offering their goods in a closed "shopping mall" that would form a part of BSkyB's new 140-channel digital service.

Mark Booth, BSkyB *chief executive and BIB chairman,* says an internet-based system would be inferior. "We have software that looks brilliant and is very easy to use. I don't see why *blown-up internet images* would be appealing."

British Interactive Broadcasting
Shareholders (%)



However, some leading retailers have balked at the size of the fees needed to enter this environment. Presentations by Chris Town*send, a former commercial* director, put the total cost between £200,000 and £2m ($330,000 and $3.3m).

The cost has been raised by the fact that applications on retailers' internet sites must be converted into Open Author, the Oracle software. This has raised the stakes uncomfortably for retailers considering whether to join.

"The cost structure is quite onerous, and so we would have to make quite a big gamble on which television service will be a winner," says one retailer. "As a retailer, we do not feel very comfortable taking bets on technology."

David Hilton, BIB's last chief executive, who left earlier this month after six months, attempted to ease this bind by ensuring BIB would be capable of running on the operating systems of other television services.

However, there has been *little sign of this being taken* up by rivals. The large cable companies are establishing separate services, while On Digital, the terrestrial digital service, seems likely to choose an internet solution.

Yet BIB's shareholders, *have reason for optimism.* The involvement of BSkyB means BIB's service is likely to run on the dominant digital pay-television service.

Paul Seward, who represents Midland Bank, the HSBC Holdings subsidiary, on BIB's board, says it will make a concerted effort to attract retailers, now that regulatory uncertainty is over, and could cut prices.

"We are creating a new market, and there will be nothing in it for BIB if there is nothing in it for retailers," says Mr Seward. He says preliminary presentation of the price structure was partly to test the market.

However, BIB will have to work to recapture lost ground. Although BSkyB's launch of digital television on October 1 will blaze a trail, its chance of establishing a *similar* strength in interactivity is lower.

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Legal persons	6.7620

Refrence price is 56,476 ROL/share, respectively 6.652 USD/share, and total value of stake put for sale is 302,977,192,532 ROL, respectively 35,686,031 USD.

The Company PRESENTATION FILE required for subscription to the offer may be obtained at the **State Ownership Fund**, BUSINESS CENTRE, OFFERS DIVISION of the International Relations Department, Bucharest, 6 Stavropoleos Street, sector 3 phone 04-01/3110495; 3123130; 3124231 and fax 04-01/3121841, daily between 8.00 and 16.00 hrs. until the preceding submitting offer date, inclusive, at a price of **60,000,000 ROL**. Foreign citizens or legal entities may pay cash in USD at National Bank exchange rate applicable on the PRESENTATION FILE purchase date. This amount has to be transferred in advance to the **State Ownership Fund** accounts: no. **2511000000242300008** in USD at the Romanian Bank for Foreign Trade (BANCOREX) for foreign investors, or no. **251100980900224** in ROL at the Romanian Bank for Development-Bucharest Branch (BRD-SMB) for Romanian investors. **INTERNATIONAL FINANCE CORPORATION** advises the State Ownership Fund in the privatisation process.

Further information about the company's privatization may be offered by **S.O.F.'s INTERNET SITE**, at the address **www.sof.ro**, or at the phone 040-01-312.42.34; 311.3093 for Mr. Nicolae Ragalie and Mr. Stefan Rizoiu, or 202 458-9298, Mrs Krysti Brice (INTERNATIONAL FINANCE CORPORATION).

THE PRESENTATION FILE will be released on presentation of:
- ☐ a copy of the payment order for the presentation file;
- ☐ identity card (or passport for foreign citizens);
- ☐ certificate from the bidding company.

In order to participate in the negotiations, bidders are required to present evidence of putting at the Seller's disposal a guarantee of a participation i.e. **9,089,000** thousand ROL as follows: Romanian citizens or legal entities may pay cash to the **State Ownership Fund** to account no: 251100980900313 in ROL at the Romanian Bank for Development - Bucharest Branch (BRD-SMB); foreign citizens or legal entities may pay cash to the **State Ownership Fund** to account no. 2511000000242300008 in USD, at the Romanian Bank for Foreign Trade (BANCOREX); alternatively the bidders may instruct the bank where they hold their account to release an unconditional bank guarantee valid for 240 days.

Only bidders that prove they acquire the *Presentation File* may submit their PURCHASING OFFER.

Bidders should submit the PURCHASING OFFER, including a Business Plan and the documents stipulated Annex 1, of the Government Decision no. 55/1998, article 27, published in the Official Gazette no. 66/12.02.1998 to the State Ownership Fund, Offers Division at the above mentioned address, in a sealed envelope, on or before the 5th of October 1998, 10th hrs. local time (from deadline for submission). The opening of envelopes containing PURCHASE OFFER will be on the same day at 13th hrs on the above mentioned address.

Foreign investors will pay the amount for Share Sale Purchase Agreement in currency, at the National Bank of Romania foreign exchange rate on the day of signing the final protocol of direct negotiation.

Invest in Romania!

STATE OWNERSHIP FUND

Advertising release for sale of shares by direct negotiation

The **STATE OWNERSHIP FUND**, a Romanian public institution based in Bucharest, 6 Stavropoleos Street, sector 3, is offering for sale by direct negotiation according to the Government Urgency Ordinance no.88/1997 and the Government Decision no. 55/1998 a **69.999 %** of the issued share capital of **Trading Company LAMINORUL S.A., Braila.**

- ☐ Registered Office: Braila, Str. Industria Sarmei. nr. 2, jud. Braila.
- ☐ Fiscal Code: R 2266948.
- ☐ Registration no. at Commercial Register Office: J/09/42/1991.
- ☐ Issued stock capital, according to the latest records at the Commercial Register Office: 83,494,675 thousand ROL.
- ☐ Turnover in 1997: 175,272,054 thousand ROL.
- ☐ Net profit in 1997: 2,135,748 thousand ROL.
- ☐ Main scope of activity: production and trading of hot laminated profile, concrete steel, trefiled wire and trefiled bar, nails, chains, wood and metallic constructions.

Total number of shares at a nominal value of **25,000 ROL** each: **3,339,787**
The share ownership structure is as follows:

	%
State Ownership Fund	69.9990
Financial Investment Company Moldova	7.1776
Share owners through public offer	9.5313
Share owners through mass privatisation	5.9857
Others	7.3064

The selling offer price is of 42,839 ROL/share and the value for shares parcel put for sale is of 100,149,424, thousand ROL.

The Company's PRESENTATION FILE required for subscription to the offer may be obtained at the **State Ownership Fund**, BUSINESS CENTRE, OFFERS DIVISION of the International Relations Department, Bucharest, 6 Stavropoleos Street, sector 3 phone 04-01/3110495; 3123130; 3124231 and fax 04-01/3121841, daily between 8th and 16th hrs., to the previous day tot eh deadline offers deposition, inclusively, at a price of **40,000,000 ROL** payable at the the seller's pay office - S.O.F. headquarters from Bucharest, 152 Calea Victoriei Street, 1 sector, 4th floor or in account no. **251100980900224** opened at Romanian Bank for Development - Bucharest Branch (BRD-SMB).

Further information about the company's privatisation may be offered by **S.O.F.'s INTERNET SITE** at the address **www.sof.ro**, or at the phone 040-01-314.62.81, fax: 040-01-310.16.92, **Mr. Antoniu Pompiliu Stănescu**.

In order to participate in the negotiations it is compulsory buying the PRESENTATION FILE.

THE PRESENTATION FILE will be released on presentation of:
- ☐ a copy of the payment order for the presentation file;
- ☐ identity card (or passport for foreign citizens);
- ☐ power of attorney from the offering trading company.

In order to participate in the negotiations, bidders are required to present evidence of putting at the Seller's disposal a guarantee of a participation of **1,001,500** thousand ROL payable at Romanian Bank for Development - Bucharest Branch (BRD-SMB) in account no. **251100980900313**, as follows: for natural/legal foreign persons payment of PRESENTATION FILE and participation guarantee may be made in the account for convertible foreign currency open at the Romanian Bank for Foreign Trade (BANCOREX) account **2511000000242300008** in USD at exchange rate transmitted by NATIONAL ROMANIAN BANK at payment date for these. Bidders may instruct the bank where they hold their main account to release a bank guarantee valid for **180 days**, from the deposition date for the offer.

Natural/legal foreign persons may make the payment for the SELLING-BUYING contract in convertible currency at the exchange rate transmitted by NATIONAL ROMANIAN BANK at the date of signing for the Protocol for closing of the direct negotiation.

Bidders should submit the PURCHASING OFFER and the documents stipulated in Government Decision no. 55/1998, article 27, stipulated in Section C of the PRESENTATION FILE and BUYING OFFER, inclusively BUSINESS PLAN, to the State Ownership Fund, Offers Division at the above mentioned address, in a sealed envelope, prior to 24th of September, 1998, 16th hrs. local time.

Invest in Romania!

STATE OWNERSHIP FUND

Advertising release for sale of shares by direct negotiation

The **STATE OWNERSHIP FUND**, a Romanian public institution based in Bucharest, 6 Stavropoleos Street, sector 3, is offering for sale by direct negotiation according to the Government Urgency Ordinance no.88/1997 and the Government Decision no.55/1998 a **50.80 %** of the issued share capital of **Trading Company INTFOR S.A., Galati.**

- ☐ Registered Office: Galati, Str. Portului, nr. 157, jud. Galati.
- ☐ Fiscal Code: R 1650044.
- ☐ Registration no. at Commercial Register Office: J 17/16/1991.
- ☐ Issued stock capital, according to the latest records at the Commercial Register Office: 33,871,050 thousand ROL.
- ☐ Turnover in 1997: 230,179,408 thousand ROL.
- ☐ Net profit in 1997: 6,464,527 thousand ROL.
- ☐ Main scope of activity: manufacturing and trading of cold laminated products and processing of copper and other ferrous metals.

Total number of shares at a nominal value of **25,000 ROL** each: **1,354,842.**
The share ownership structure is as follows:

	%
State Ownership Fund	50.80
Financial Investment Company Moldova	23.90
Share owners through mass privatisation	25.29
Shares assigned to the manager	0.01

The selling offer price is of 56,021 ROL/share and the value for shares parcel put for sale is of 38,556,482,000 ROL.

The Company's PRESENTATION FILE required for subscription to the offer may be obtained at the **State Ownership Fund**, BUSINESS CENTRE, OFFERS DIVISION of the International Relations Department, Bucharest, 6 Stavropoleos Street, sector 3 phone 04-01/3110495; 3123130; 3124231 and fax 04-01/3121841, daily between 8th and 16th hrs. to previous day to the deadline for offers deposition, inclusively, at a price of **14,000,000 ROL** payable at the seller's pay office - **S.O.F. headquarters** from Bucharest, 152 Calea Victoriei Street, 1 sector, 4th floor, or in account no.251100980900224 opened at the Romanian Bank for Development - Bucharest Branch (BRD-SMB).

Further information about the company's privatisation may be offered by **S.O.F.'s INTERNET SITE** at the address **www.sof.ro**, or at the phone 040-01-314.62.81, fax: 040-01-310.16.92, **Mr. Antoniu Pompiliu Stanescu.**

In order to participate in the negotiations it is compulsory buying the PRESENTATION FILE.

THE PRESENTATION FILE will be released on presentation of:
- ☐ a copy of the payment order for the presentation file;
- ☐ identity card (or passport for foreign citizens);
- ☐ power of attorney from the offering trading company.

In order to participate in the negotiations, bidders are required to present evidence of putting at the Seller's disposal a guarantee of a participation of **1,156,694** thousand ROL payable at the Romanian Bank for Development - Bucharest Branch (BRD-SMB) in account no. 251100980900313, as follows: for natural/legal foreign persons payment of PRESENTATION FILE and participation guarantee may be made in the account for convertible currency open at Romanian Bank for Foreign Trade (BANCOREX) account no. 2511000000242300008 in USD, at exchange rate transmitted by NATIONAL ROMANIAN BANK at payment date for these.

Natural/legal persons may make the payment for the SELLING-BUYING contract in convertible foreign currency at the exchange rate transmitted by NATIONAL ROMANIAN BANK at the date of signing for the Protocol for closing of the direct negotiation.

Bidders may instruct the bank where they hold their main account to release a bank guarantee valid for **180 days**, from the deposition date for the offer.

Bidders should submit the PURCHASING OFFER and the documents stipulated by the Government Decision no. 55/1998, article 27, stipulated in Section "C" of PRESENTATION FILE and BUYING OFFER, inclusively BUSINESS PLAN, to the State Ownership Fund, Offers Division at the above mentioned address, in a sealed envelope, prior to **12th of October, 1998, 10th hrs.** local time following that at 14th hrs to open the offers in the presence of bidders.

Invest in Romania!

STATE OWNERSHIP FUND

Advertising release for sale of shares by direct negotiation

The **STATE OWNERSHIP FUND**, a Romanian public institution based in Bucharest, 6 Stavropoleos Street, sector 3, is offering for sale by direct negotiation according to the Government Urgency Ordinance no.88/1997 and the Government Decision no. 55/1998 a **69.9844 %** of the issued share capital of **Trading Company CORD S.A., Buzau.**

- ☐ Registered Office: Buzau, Str. Aleea Industriilor nr. 1 bis, Jud. Buzau.
- ☐ Fiscal Code: R 1154717.
- ☐ Registration no. at Commercial Register Office: J/10/214/1991.
- ☐ Issued stock capital, according to the latest records at the Commercial Register Office: 68,957,150 thousand ROL.
- ☐ Turnover in 1997: 79,791,912 thousand ROL.
- ☐ Net profit in 1997: 1,746,024 thousand ROL.
- ☐ Main scope of activity: manufacturing and trading of cord for the envelope and wire.

Total number of shares at a nominal value of **25,000 ROL** each: **2,758,286.**
The share ownership structure is as follows:

	%
State Ownership Fund	69.9844
Financial Investment Company Transilvania	16.4290
Share owners through public offer	13.3159
Share owners through mass privatisation	0.2551
Shares assigned to the manager	0.0156

The selling offer price is of 83,780 ROL/share and the value for shares parcel put for sale is of 161,726,398,000 ROL.

The Company's PRESENTATION *FILE* required for subscription to the offer may be obtained at the **State Ownership Fund**, BUSINESS CENTRE, OFFERS DIVISION of the International Relations Department, Bucharest, 6 Stavropoleos Street, sector 3 phone 04-01/3110495; 3123130; 3124231 and fax 04-01/3121841, daily between 8.00 and 16.00 hrs., at a price of **30,000,000 ROL** payable at seller's pay office - S.O.F. headquarters from Bucharest, 152 Calea Victoriei Street, 1 sector, 4th floor or in account no. **251100980900224** opened at Romanian Bank for Development - Bucharest Branch (BRD-SMB).

Further information about the company's privatisation may be offered by **S.O.F.'s INTERNET SITE** at the address **www.sof.ro**, or at the phone 040-01-314.62.81, fax: 040-01-310.16.92, **Mr. Antoniu Pompiliu Stănescu.**

In order to participate in the negotiations it is compulsory buying the PRESENTATION FILE.

THE PRESENTATION FILE will be released on presentation of:
- ☐ a copy of the payment order for the presentation file;
- ☐ identity card (or passport for foreign citizens);
- ☐ power of attorney from the offering trading company.

In order to participate in the negotiations, bidders are required to present evidence of putting at the Seller's disposal a guarantee of a participation of **4,851,792** thousand ROL payable at Romanian Bank for Development - Bucharest Branch (BRD-SMB) in account no. **251100980900313** as follows: for natural/legal foreign persons payment of PRESENTATION FILE and participation guarantee may be made in the account for convertible foreign currency open at the Romanian Bank for Foreign Trade (BANCOREX) account **2511000000242300008** in USD, at exchange rate transmitted by NATIONAL ROMANIAN BANK at payment date for these. Bidders may instruct the bank where they hold their main account to release a bank guarantee valid for **180 days** from the deposition date for the offer.

Natural/legal foreign persons may make the payment for the SELLING-BUYING contract in convertible currency at the exchange rate transmitted by NATIONAL ROMANIAN BANK at the date of signing for the Protocol for closing of the direct negotiation.

Bidders should submit the PURCHASING OFFER and the documents stipulated in Government Decision no. 55/1998, article 27, stipulated in Section "C" of PRESENTATION FILE and BUYING OFFER, inclusively the BUSINESS PLAN at the above mentioned address, in a sealed envelope, prior to 23rd of October, 1998, 10th hrs. local time following that at 14th hrs to open the offers in the presence of bidders.

TECHNOLOGY & HEALTH

TECHNOLOGY SILICON CHIPS

Big Blue's bold future questioned

The chip industry appears unruffled by IBM's technical progress, writes **Roger Taylor**

International Business Machines has made headlines three times in the past 12 months by announcing important technical breakthroughs in silicon chip technology.

It has prompted some rave reviews and some fantastical speculation about the future, such as talk of the disposable computer, a device that runs on a battery and holds the entire system on a single chip. When the battery runs out, you just bin it and buy another one.

IBM's technology sounds impressive, but curiously, the rest of the chip industry does not appear unduly ruffled. IBM claims its technologies will create standards which will be adopted throughout the industry. Intel, the world's largest chip manufacturer, disagrees.

The difference of opinion reflects the great risks of conducting fundamental research. IBM has a tradition of investing in long-term research. Its laboratories are world-leading centres of research in many fields.

Intel, with a \$2.8bn (£1.7bn) 1998 research and development budget, spends more than any other company on advancing chip technology. But its efforts are more closely tied to its commercial operations.

Most of its spending goes on short-term research to improve performance of products already in development. The company's "advanced" research is geared to products that may be five to seven years away, although it also funds university research into ways to make chips faster.

Intel has little immediate interest in any technology that does not hold out the prospect of transferring rapidly to production of up to 90m units a year. From Intel's perspective, much of IBM's technology is too speculative. The developments on which IBM has led the way are copper interconnections, silicon germanium, and silicon on insulator. All are ideas that have been investigated by semiconductor researchers for many years, but were rejected largely because they proved impractical or too expensive to apply commercially.

IBM's breakthroughs have been in making these ideas economically feasible in high-volume production. In September, it said it had perfected a technique for using copper to connect microminiature transistors on a silicon chip, an innovation it said would increase the speed of chips by up to one-third as copper is a much better conductor. IBM began shipping chips with copper connections this month.

Then in June, IBM said it was beginning production of silicon germanium chips. Adding germanium to silicon in chips produces enormous leaps in performance while lowering the chips' power consumption. The technology has been around for more than a decade but for most applications was too expensive. IBM is now making chips for specialised purposes, largely in telecommunications equipment.

Intel can see few signs that silicon germanium will become economically viable

The company completed its triple whammy earlier this month, announcing that it had found a cheap way to manufacture silicon-on-insulator chips. SOI, which involves putting a thin layer of insulator under the surface of the chip to reduce the power needed and lessen interference, is another old idea, but production has proved so expensive it has been used only in rarefied markets, such as satellites.

In theory, IBM's SOI chips can run on as little as one-third of the power of standard chips, greatly opening up the potential for battery-powered devices. For example, IBM has raised the prospect of hand-held devices which link to the internet.

Sharp, the Japanese consumer electronics group, is also understood to be excited about SOI technology, and has reportedly set itself the long-term goal of producing solar-powered devices using the new type of chip.

IBM is so confident of the advantages of SOI that it has predicted it will quickly replace CMOS as the standard for chip manufacture.

Curious, then, that industry leader Intel has, after much research into SOI, decided to pass the technology by. Intel says it could find no way to generate sufficient benefits from SOI to justify the production costs.

Intel is equally untroubled by IBM's other announcements, although less dismissive of these. Copper is accepted as inevitable. But Intel does not believe it will be economical to incorporate copper until the generation of chips after next, and is confident it will have its own copper technology when needed.

On silicon germanium, Intel happily concedes that others have the lead. But it says it focuses its research on what looks feasible on at most a five-year time horizon. It can see few signs that silicon germanium will become an economically viable technology.

Frank Dzubeck, an industry analyst with Washington-based Communications Network Architects, is enthused by the technical possibilities opened up by IBM's work, pointing out that silicon germanium has the potential to lift chip speeds to 10GHz, compared with today's standard of 300MHz-400MHz.

G. Dan Hutcheson of VLSI Logic, another industry analyst, is more sceptical. IBM, he says, does not have a sufficient technological lead in copper to give it a significant advantage over the competition.

On SOI, he says, IBM has still to prove it can manufacture chips which deliver the promised benefits at a realistic price. If it succeeds, however, it has a significant patent position in the area which could give it a substantial boost in the market.

Silicon germanium has the greatest potential. "If that came off, IBM would own the silicon chip industry," says Mr Hutcheson. But with less than a decade to run on some of IBM's patents, the issue is whether the technology becomes relevant while IBM still owns it.

During the next couple of years, IBM's semiconductor business may provide a fascinating case study of how, or how not, to turn basic research to financial advantage. The company has a history of producing bright ideas which never prove commercially viable.

Many of its competitors are confidently expecting it to make the same mistake this time. If they are wrong, IBM could turn the industry on its head.

PRODUCTION ADVANCES

The next big thing in chips is very small

Adapting the flat design to a tiny ball would generate huge savings in both time and costs, writes **Tom Foremski**

Silicon chips are flat. But Ball Semiconductor, a start-up based in Texas, wants to make silicon chips that are balls, 1mm in diameter. In the process, it aims to slash production time and manufacturing costs to a fraction of current levels.

Chip fabrication plants are among the most expensive and complex manufacturing sites of our industrial age, typically costing more than \$1bn (£600m) to build.

The chips are made like a pizza. Thin, round wafers are sliced from a cigar-shaped crystal of pure silicon. They move through a series of processes in which layers of semiconductor materials are built up on their surface and then exposed to a pattern of light which is used to etch the transistors and connectors. The wafer is baked and sliced into hundreds of chips.

Ball Semiconductor says there is a better production method. Start by making 1mm diameter silicon balls, seal them in a network of glass tubes, fly them through the various production processes without letting them touch the sides of the tubes, and spit them out at the other end at a rate of 2,500 per second.

Total process time is five days, compared with 100 days for flat chips. And since the ball chips are protected within their tubes, you do not need to build huge clean rooms to keep out the tiny specks of dust that ruin a chip. A Ball Semiconductor manufacturing site would look more like a chemical processing plant, with coils of tubes – some of them 24ft high – and would cost as little as \$100m.

"We have achieved some important breakthroughs so far and have demonstrated production of some simple chips. The next stage is to produce transistors on the surface of the balls," says Ram Ramamurthi, vice president of research and development.

The goal is to have a pilot production line in operation by the end of next year. But to get to that point there are many challenges. One of them is how to project the image of a chip on to a curved surface. Optical lithography – the process used for flat surfaces – is a relatively straightforward procedure that resembles exposing photographic paper to a photographic negative. But for a spherical surface, Ball Semiconductor had to invent a lithographic process that projects the chip image through a complex light path involving 42 tiny mirrors.

The company was founded in 1996 by Akira Ishikawa, the former president of Texas Instruments Japan, with about \$52m of financing, mostly from Japanese companies. Texas was chosen as the company headquarters because of the large number of chip manufacturing sites which provide the firm with talent and supporting infrastructure.

'While there are some major hurdles, these problems are probably solvable'

Jack Kilby, who invented the silicon transistor chip while at Texas Instruments, paid a visit to Ball in May. "I've never seen or heard of anything like this before," he said.

"The concept is fascinating. While there are some major hurdles concerning this technology, these problems are probably solvable."

HEALTH PARKINSON'S DISEASE

Wave of drugs renews hopes for sufferers

Not since the 1960s and L-dopa has the outlook seemed so bright, says **Clive Cookson**

A new wave of treatments is giving fresh hope to the 4m people worldwide who suffer from Parkinson's disease. Five drugs have recently reached the market, several others are in development, and more innovative treatments – including electronic and biological brain implants – are giving encouraging results.

The outlook for people with Parkinson's, a progressively disabling brain disease, has not seemed so bright since the late 1960s when L-dopa was introduced and quickly acclaimed as a miracle drug. L-dopa is converted in the brain into dopamine, the messenger chemical (neurotransmitter) that is severely depleted in Parkinson's patients.

Doses of L-dopa often have an immediate and dramatic effect on previously untreated patients, relieving symptoms such as trembling muscles and slow, painful movements. Unfortunately, the benefits begin to wear off after three to five years and neurological side effects increase. Although L-dopa has not lived up to its early promise, it remains the mainstay of Parkinson's treatment.

The new drugs work in two principal ways to make up for the missing dopamine. One group, which includes tolcapone from Roche and entacapone from Orion and Novartis, makes L-dopa and dopamine work more efficiently in the brain by inhibiting the enzyme that normally breaks them down. They enhance the efficiency of L-dopa in relieving Parkinson's symptoms.

The second category – ropinirole from SmithKline Beecham and cabergoline and pramipexole, both from Pharmacia & Upjohn – are "dopamine agonists". They stimulate chemical receptors on brain cells, enabling patients in the earlier stages of Parkinson's disease to make better use of their dwindling production of dopamine. Clinical trials suggest they can delay the need for L-dopa therapy by an average of two or three years.

The pharmaceutical industry also has a range of Parkinson's drugs in its research pipeline. Some use innovative delivery techniques. This month, Discovery Therapeutics of the US announced an alliance with Schwarz Pharma of Germany to deliver its new dopamine agonist through the skin in a transdermal patch.

In the longer term, biotechnology has much to offer. There is a prospect of treatments that will reverse the damage and may eventually cure Parkinson's.

Although the fundamental cause of the disease is not known, the overall approach is to repopulate the affected regions of the brain with the specialised nerve cells destroyed by Parkinson's.

Neurotropic growth factors – natural chemicals that stimulate nerve cells to grow – are one option. Amgen, the largest US biotech company, is in the early stages of testing one such factor, GDNF, on advanced Parkinson's patients. It has to be injected directly into the brain, to get through the blood-brain barrier, but it seems to restore some activity to damaged neurones.

Gene therapy may also be applicable. Several companies are investigating ways of introducing new genes into the brain, probably through a special virus. They would enable nerve cells to produce missing proteins such as dopamine.

A more biological approach, which has a surprisingly long history, is to transplant cells that produce dopamine directly into the brain through a small hole in the skull. Aborted human foetuses have been the main source of such cells because their neurones still have the potential to establish new connections.

Experience during the past 10 years with foetal cell transplants shows they can help some patients. But this source could never be used widely because less than 20 per cent of transplanted cells survive in the host brain.

Muhammad Ali now fights for those with Parkinson's AP

Earlier this year researchers from the University of Seville in Spain identified another potential source of cells: the carotid body, a little organ in the neck which senses the oxygen level in the blood and stimulates faster breathing if it falls too low.

This is rich in dopamine-producing cells, and animal experiments suggest the patient's own carotid body may be a clinically more successful – and ethically more acceptable – source than aborted foetuses. But a lot more research will be needed to confirm it works in people.

At the opposite end of the spectrum is Activa, a new electronic implant developed by Medtronic, a US medical devices company. Electrodes, implanted deep into the brain, produce mild electrical stimulation to block the faulty nerve signals that cause Parkinson's symptoms. The battery and electronic circuitry that control the neuro-stimulation are contained in a device like a pacemaker, which is implanted under the skin near the collarbone. Patients use a hand-held magnet to turn the system on when they wake up and off when they go to bed.

Activa is being launched in Europe this year. It enables patients with advanced Parkinson's, for whom the beneficial effects of L-dopa are wearing off, to control some of the most disabling symptoms. These include rigidity, lack of movement, tremor and difficulty in balancing. Patients' diaries show they could function independently for twice as many hours a day with Activa.

It will be a long time before advances on the chemical, biological and electronic fronts enable Parkinson's patients to live a normal lifespan free of symptoms. But the outlook for treating and eventually curing Parkinson's is better than for other progressive brain disorders such as motor neurone disease, Alzheimer's or Creutzfeldt-Jakob disease.

PEOPLE ON THE MOVE

McGovern leaves AT&TT to join Fidelity Investments

The overhaul being wrought at AT&T by Michael Armstrong has brought the departure of another senior executive. **Gail McGovern**, one of the most senior women in American business, quit last week to join Fidelity Investments, the country's biggest mutual fund group.

McGovern's star rose at the US long distance telecommunications company in the regime that immediately preceded Armstrong's arrival, late last year. John Walter, singled out briefly as the company's next leader before being dropped by the board, appointed her to run AT&T's consumer operations – a job that effectively put her in charge of one of the country's best-known brands.

During her watch, which began at the end of 1996, AT&T succeeded in slowing the decline its consumer business – though it has yet to turn in the sort of growth rates shown by most of its competitors and it is still losing market share.

There does not seem to be much room for her in AT&T's top management ranks in the foreseeable future, however. The planned merger with TCI will be followed by the creation of a new consumer services company, combining the cable television company's operations with the AT&T businesses that have been under McGovern's control.

Two people have already been earmarked to run that operation: **Leo Hindery**, the president of TCI, and **John Zeglis**, the long-standing AT&T general counsel who has made a notably successful switch into mainstream operational management during the past year. After 24 years at AT&T where she started as a programmer, McGovern, 46, decided it was time to move on.

At Fidelity, she has been put in charge of operations at the Boston-based group's personal investments and brokerage group. Her job, according to Gary Burkhead, the Fidelity vice chairman who runs the group, is to bring fresh ideas to the way Fidelity handles its relationship with 5.3m retail customers. She will also head Fidelity's distribution operations, which will give her responsibility for all the group's telemarketing activities.

Richard Waters, New York

Meile moves at Roche

Jean-Luc Bélingard, 49, head of Roche's diagnostics division, is taking early retirement, and will be replaced by **Otto Meile**, 63, head of Roche's activities in Germany.

Bélingard, a Frenchman who joined Roche in 1982, has headed Roche's diagnostics division since 1990. Last year Roche more than quadrupled the size of its diagnostics business with the \$10.2bn acquisition of Corange, parent of Germany's Boehringer Mannheim group.

Diagnostics is now Roche's second biggest division after pharmaceuticals and a central part of its strategy to be a world leader in diagnosing illnesses as well as producing the drugs to treat them.

Bélingard, who has an MBA from Cornell, has been heavily involved in the rapid integration of Boehringer Mannheim into Roche, and his decision to return to France "for family reasons", surprised analysts.

Meile, who joined Roche in 1970, is the latest in a series of changes on Roche's executive committee which include the early retirement of **Jürgen Drews**, Roche's research chief, and the appointment of **Kuno Sommer** as head of fragrances and flavours.

William Hall, Zurich

Radziwill sets up own business

The effects of Warburg Dillon Read's narrowing interest in central Europe following the recent merger with UBS have reached Warsaw where **Maciej Radziwill**, one of Poland's best market analysts, has left Swiss bank to set up on his own.

Radziwill is now safely ensconced at Cresco Financial Advisers, which mainly serves Everest Capital Ltd, a Bermuda based hedge fund.

Radziwill, 37, a scion of one of Poland's most aristocratic families, came to UBS after spells at CSFB and Creditanstalt.

He shone in 1997, when – counter to general opinion – he put his faith in Heineken's management of the Zywiec brewery, one of Poland's best known brands. Zywiec stock rose in that year by 120 per cent against a general market average growth of 2 per cent.

Christopher Bobinski, Warsaw

US Treasury shuffles team

As Asia's financial turmoil continues and Russia's intensifies, the US Treasury is changing the team responsible for managing international crises and bringing in the Federal Reserve Board's top international expert.

The changes, yet to be officially announced, follow the expected departure of **David Lipton**, 44, the undersecretary for international affairs, who earlier this month said he would be leaving his job in October.

The Harvard-educated economist, two weeks ago in talks with senior Russian officials in Moscow, has been saying for some time he intends to leave the Treasury.

His job will be filled by his immediate deputy, **Timothy Geithner**, 37, now assistant secretary for international affairs. Geithner has spent most of his working career in government service except for a brief break as an Asian analyst for Kissinger Associates.

In a more surprising move, **Edwin "Ted" Truman** - the head of the Fed's international finance division since 1977 - will change hats to take Geithner's current job. Truman has been an influential figure at the Fed, one of three economists on the staff of the policymaking Federal Open Market Committee. Chairman Alan Greenspan listens closely to Truman, though Greenspan has not been so engaged in international issues as some of his predecessors.

It has been public knowledge that Truman, 57, was set to retire in the next year or so, so his decision regarded with what branch of government he should finish his public service career. He is also close to Larry Summers, deputy Treasury secretary, whom he has known for more than a decade and who lives in the same part of suburban Maryland. Moreover, a period at the Treasury in the thick of international crisis management may well enhance the popular Fed official's marketability in the private sector when he eventually leaves government.

On the domestic side at the Treasury, **Gary Gensler**, 40, is expected to move up a step to become undersecretary for domestic finance. He takes over from **John Hawke** who has been nominated to head the office of Comptroller of the Currency. The appointments all require Senate confirmation.

Stephen Fidler, Washington

Moving places

- Commerzbank Capital Markets Corporation, the New York arm of Commerzbank Global Equities, has appointed **Michael Lewis** head of international sales trading, New York. He joins from SBC Warburg.
- **Mark Newbery**, corporate partner at city solicitors Herbert Smith, has become managing partner of Herbert Smith's Singapore office.
- Danka Business Systems has appointed **Mark Wolfinger** president, Latin America, Canada and Specialty Markets. Wolfinger most recently served as executive vice president and chief financial officer for Hollywood Entertainment Corporation.
- International Finance Corporation has appointed **Sumio Takeichi** director, marketing and business development. Takeichi, a Japanese national, is presently the director (Overseas) of Mitsubishi Corporation, Tokyo.

THE ARTS

EXHIBITIONS IN EDINBURGH

Emptiness posing as profundity

Striking fashionable attitudes is not art, argues **William Packer**

The first thing to say is that the exhibitions on in Edinburgh during the festival time are not properly part of the festival at all. As has been the case these past many years, the organising policy still assumes that the ordinarily cultivated and curious visitor, with time to fill between concert hall and theatre, has no interest in art. Put festival money into exhibitions? Perish the thought.

Luckily those responsible for Edinburgh's galleries, both large and small, know better and are sensible enough to put on at least something of a show. The only trouble is that the exercise seems to be growing more disinterested with every year. The shows now seem simply to be those that happen to have fallen at this moment in the calendar, and put on well before or running on long after, as though to keep the festival at a distance. Whatever the particular quality, this year seems more low-key than ever.

She was onto her face when I looked in, moving across her eyes and nose and mouth, and so in and down her throat

The National Gallery of Scotland has a small, scholarly study of those two great rivals of the Roman Baroque, Bernini and Algardi. The Scottish National Portrait Gallery, too, stays in the 17th century with a full account of the fascinating, ultimately sad life of Elizabeth Stuart, Queen of Bohemia, "The Winter Queen". The Royal Scottish Academy marks the centenary of William Gillies, the most influential painter of the Scottish School from the 1920s to the '60s. More of them another time. And the Scottish Gallery of Modern Art has simply picked up a touring show, already seen in Chicago, New York and Oxford, of the recent work of the performance artist, conceptual sculptor and video film-maker, Mona Hatoum.

Born in Beirut in 1952, Hatoum came to London in 1975 to continue her studies and has remained there ever since. She quickly made a name for herself by her performance and video work through the 1980s, latterly turning more to making objects and installations. Nominated for the Turner Prize in 1995, she showed then her "Corps étranger", a circular cubicle with a video screen upon the floor. The actual video proves to be an exhaustive, intimate, literally intrusive endoscopic examination of the entire surface of her own body, inside and out, orifice by orifice, to the insistent metronomic beat of what I take to be her pulse. She was onto her face when I looked in, moving across her eyes and nose and mouth, and so in and down her throat – at which point I dragged myself away.

What else is there? A stainless-steel hospital cot; a steel wheel-chair; a curly-backed chair with a triangle of pubic hair upon the seat – echoes of Man Ray and Magritte; some still-life photos of Halal meat, and a row of dead mice caught in traps; waxed paper wrapped and rubbed over cheese-graters and colanders, and then opened out and preciously framed.

There is a room full of steel dormitory bunkers – called "Quarters"; and a divan made up of embossed steel plate. A bulb rises and falls between rows of empty wire lockers, casting a constantly changing shadow out onto the walls. A dense carpet proves to be made of pins – "similar to the laborious process of weaving a rug, 'Pin Carpet' involved the careful and painful pushing of thousands of small steel pins through a cloth base". Does she not have a thimble?

More cages – the lights go up and the lights go down within a four-sided framework filled with cables as an amplifier buzzes noisily away. It is called "Current Disturbance", and "suggests a battery chicken farm, or perhaps tower blocks."

Serious-minded and self-important: 'Incommunicado', 1993 by Mona Hatoum

To be thus self-important and serious-minded can clearly take one a long way, to say nothing of the weak puns and the pious liberal correctness of it all. This show is immaculately set out, entirely appropriate to by now her international reputation. But all we have in reality is the striking of fashionable attitudes. The only worry is that so many take such emptiness as profundity. Her "Plotting Table" has a rudimentary map of the world made of holes drilled through the table-top and lit from below by a green glow. It "refers to maps for plotting military strategy while the fluorescent glow suggests radio-activity." Oh dear.

Things are no better over at the Fruitmarket, where no less scrupulous an installation celebrates the video collaborations of Stephanie Smith and Edward Stewart. Here are two young artists who seek to persuade us that their physical interference with each other in front of the camera amounts to art.

They gag each other, and then tease and torment each other. They bury their heads in the pillow so that they can hardly breath. They struggle to write even as they struggle to prevent the other writing. In an earlier piece, mouth to mouth, one passes to the other, totally immersed in the bath, the breath of life. And we watch as they gasp and wince.

There is no doubting their seriousness, nor their self-regard. But even as the sort of theatre theirs is, does putting a gag in the mouth and then finding it hard to breath, or trying to write against the pressure of another's hand, tell us anything we did not know already? "We're really exploring a male/female relationship ... exploring what that means, what that relationship could be, incorporating degrees of obsessive, even aggressive, extremes and transgressions." So that's it, is it? Very interesting.

Mona Hatoum: Scottish National Gallery of Modern Art, Belford Road, Edinburgh, until October 25; sponsored by BMW Financial Services Group, supported by the Henry Moore Foundation. Smith/Stewart – Nearly, Barely: The Fruitmarket Gallery, 45 Market Street, Edinburgh, until September 15; sponsored by Beck's.

A romp with the Rose of Rangoon

MUSICAL

ANTONY THORNCROFT

Song of Singapore
Minerva Theatre, Chichester

The staid Chichester Festival could well have a lively and louche musical hit on its hands. After gestating in the US for some years, *Song of Singapore* has found an unexpected home at Chichester's Minerva studio theatre, which has been transformed for the occasion into a seedy, dockside joint – all bead curtains and Chinese lanterns – on the wrong side of Singapore's tracks.

Freddy S. Lyme and his band of low-life jazzers are entertaining the sitting colonial ducks as the sun sets on Empire – for this is December 1941 and the Japanese are furiously pedalling down the Malaysian peninsula to change history. Not that this worries the band, or the plot, which is a delightful mish-mash of farce and jam session.

Holy jewels have been stolen from a Hindu temple: are they hidden in a fish? Is it the same fish that has been deposited in Lyme's piano. Does it matter? Well, yes, for what gives *Song of Singapore* its potential is that the story line, for all its daftness, drives the action.

This is not some concert masquerading as a drama. This is a full blooded, no corners cut, money-back-if-you-are-not-satisified, entertainment. Whoever wrote the script deserves as much credit as the composer of the bouncy tunes, and director Roger Redfarn for orchestrating such a delightful romp.

There is a star to steal the show: Issy van Randwyck, who is the Rose of Rangoon, the night club singer, the blonde with amnesia, who has a vacuum for a memory. Randwyck may have few expressions beyond the pout and the grin but they are both adorable; she sings pluckily; and seems to be as thrilled with it all as the audience she so enthusiastically embraces.

When the band needs a pilot to fly them to safety, what more natural than the discovery that Rose is really the lost American air ace Amelia Earhart; what more inevitable that they should set off for Hawaii, for Pearl Harbour.

Song of Singapore always manages to find that further twist which enables it to step out of the mainstream mass of small-scale musicals to an almost postmodern knowingness, a knowingness that is more charming than pretentious. This is especially true of the songs, which have the fingerprints of droll musicians all over them. "I miss my home in Haarlem (where the tulips bloom)" is typical, while "Never Pay Musicians What They Are Worth" could be the anthem of agents everywhere.

The theatre has been transformed into a seedy dockside joint on the wrong side of Singapore's tracks

Then comes "Foolish Geese", in the Chinese style, which is as beautiful as sunrise over the Yangtze; and "Harbour of Love", a nonsense song about the love life of fish which neatly captures the inanity of the 1930s. Indeed one of the achievements of the show is that the American composers (Allan Katz, Eric Frandsen, Michael Garin, Robert Hipkens and Paula Lockhart) manage to re-create a genuinely English-colonial atmosphere.

Apart from Issy, Elio Pace as Lyme; David Shaw-Parker as a corrupt police inspector and any number of Hindus; and Beatrice Grace as Chah Li, the Chinese future, seize their chances. But this is basically a feel-good evening which has helped to convince Chichester that it can still shake a leg – or rather conga all over the theatre.

Her enthusiasm steals the show: Issy van Randwyck

How to survive in the postwar era

THEATRE

ALASTAIR MACAULAY

Oh What A Lovely War
Roundhouse, London NW3

When it was new in the 1960s, Joan Littlewood's *Oh What A Lovely War* stamped the minds of more generations than one. Littlewood's revue-style treatment of the first world war exposed a whole wad of shibboleths: the old British sentimentality about warfare and patriotism (as if the two were indivisible), the sillier absurdities of militarism, and the ludicrous pro-war propaganda put out at the level of popular entertainment. I well recall the impact simply of hearing about this show during my 1960s childhood.

But this show now needs a very acute sense of style if it is to succeed in the post-1960s era. Much of its material is of music-hall level, and music-hall has become a dead form in the 1990s as it was not quite in the 1960s.

The National Theatre production, directed by Fiona Laird, has been touring since March. I heard good things of it when it was new; now that it has reached the beloved Roundhouse, however, it is only good in parts.

During the other parts, the show's irony now grows laborious, monotonous. Only the most obvious points are made, and the basic meanings of the show keep hammering away with too little variety. The cast of 11 men and four women have enthusiasm, charm, and skill. But nuance – on which music hall thrived – is in short supply.

The most superb passage occurs at the end of the first half. We see the famous and still affecting Christmas day when German and British soldiers first exchange songs, then food and drink – and next, suddenly, we are back in the music hall, being sent off with that adorably cheerful stiff-upper-lip song "Goodbye-ee (wipe a tear from your eye-ee)". The juxtaposition of real-life real-war sentiment and back-home manufactured marching-to-war sentimentality still strikes home. And how.

It is wonderful to be back in the Roundhouse. This was my first visit since the theatre was closed in the early 1980s, and in the interval I wandered around, remembering how many different things this unique space has been made to be and how many brilliant performances I saw there. Vanessa Redgrave's Lady from the Sea, Helen Mirren's Duchess of Malfi, Bob Hoskins' Bosola, Ballet Rambert, London Contemporary Dance Theatre ... Great ghosts, these. May every assistance be given to the Roundhouse Trust.

INTERNATIONAL

Arts Guide

AMSTERDAM

EXHIBITION
Rijksmuseum
Tel: 31-20-673 2121
The Secret Unlocked: German Furniture Opened. Nine pieces dating from the end of the 16th to the end of the 18th century, chosen from the museum's collection of cabinets. Includes four pieces by the the cabinet-makers Abraham and David Roentgen; to Aug 30

CHICAGO

EXHIBITION
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
Songs on Stone: James McNeill Whistler and the Art of Lithography. Around 200 works by the American expatriate, including drawings, etchings and paintings; to Aug 30

COPENHAGEN

EXHIBITION
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919.0719
www.louisiana.dk
Louisiana at 40: The Collection Today. Anniversary exhibition of the permanent collection, designed to showcase 40 years of work. Highlights include works by Giacometti; to Aug 30

EDINBURGH

DANCE
Edinburgh International Festival
Tel: 44-131-473 2000
www.go-edinburgh.co.uk
Dutch National Ballet: Metaphors, Trois Gnossiennes, Three Pieces for Het and 5 Tangos - by Hans van Manen. With the Royal Scottish National Orchestra conducted by Paul Connelly; Edinburgh Playhouse; Aug 25, 26

OPERA
Edinburgh International Festival
Tel: 44-131-473 2000
www.go-edinburgh.co.uk
Don Carlos: by Verdi. The Royal Opera in Luc Bondy's production, with sets by Gilles Aillaud and costumes by Moidele Bickel. The conductor is Bernard Haitink and the cast includes Karita Mattila and Thomas Hampson; Edinburgh Festival Theatre; Aug 25, 28

THEATRE
Edinburgh International Festival
Tel: 44-131-473 2000
www.go-edinburgh.co.uk
● Die Ahnlichen: by Botho Strauss. British premiere directed by Peter Stein, performed by the Theater in der Josefstadt, Vienna; King's Theatre; Aug 25, 26
● Life is a Dream: by Calderón, in a translation by John Clifford. Royal Lyceum Theatre Company production directed and designed by Calixto Bieito; Royal Lyceum Theatre; Aug 25, 26, 27, Aug 28, 29

GLASGOW

EXHIBITION
Art Gallery and Museum, Kelvingrove
Tel: 44-141-287 2000
Scrolls from the Dead Sea: discovered in caves above the Dead Sea between 1947 and 1956, these manuscripts have been the subject of intense. controversy ever since. Here they will be shown alongside objects including the jars in which they were found. to Aug 30

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Capriccio: by R. Strauss. Revival conducted by Andrew Davis and directed by John Cox. The Countess is sung by Felicity Lott. With the London Philharmonic Orchestra; Aug 25
● Le Comte Ory: by Rossini. Revival conducted by Yves Abel and directed by Jérôme Savary, with the London Philharmonic Orchestra; Aug 26, 28

KRAKOW

EXHIBITION
Plac Szczepanski
Tel: 48-12-422 6616
Ecole de Paris - Jewish Painters from Poland: pictures from Wojciech Fibak's collection, produced by painters working in Paris in the first half of this century; to Aug 30

LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
BBC Symphony Orchestra: conducted by Jiří Bělohlávek in the world premiere of the last work completed by Berthold Goldschmidt. Programme also includes works by Martinu, Mendelssohn and Debussy. With violin soloist Frank Peter Zimmerman and soprano Rosemary Hardy; Aug 26

LUCERNE

CONCERTS
International Festival of Music
Tel: 41-41-226 4400
www.LucerneMusic.ch/
St. Petersburg Philharmonic Orchestra: conducted by Yuri Temirkanov in works by Rimsky-Korsakov, Prokofiev, Stravinsky and Ravel. With violin soloist Dimitri Sitkovetsky; Aug 28

NEW YORK

EXHIBITION
Pierpont Morgan Library
Tel: 1-212-685 0008
a.k.a. Lewis Carroll: display of memorabilia marking the centenary of the death of Charles L. Dodgson (1832-1898), mathematician, photographer, and author of Alice in Wonderland; to Aug 30

PARIS

EXHIBITION
Jeu de Paume
Tel: 33-1-4703 1250
In defiance of painting: "Je ne peins pas, je cloue mes tableaux", wrote Kurt Schwitters. This century has seen many artists forsake their brushes in favour of a variety of other implements. Burri, Fontana and Arman are some of the artists represented in this exhibition; to Aug 30

SALZBURG

OPERA
Salzburg Festival
Tel: 43-662-844501
Aufstieg und Fall der Stadt Mahagonny: by Weill. Conducted by Dennis Russell Davies in a staging by Peter Zadek. Cast includes Dame Gwynneth Jones and Wilbur Pauley. With the Vienna Radio Symphony Orchestra; Grosses Festspielhaus; Aug 25

THEATRE
Salzburg Festival
Tel: 43-662-844501
Geometry of Miracles: by Robert Lepage. Performance based on the life and work of the architect Frank Lloyd Wright. Co-production with Ex Machina, Quebec, and EXPO 1998 Lisbon; Perner Insel; Aug 25, 28, 29

SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
www.santafeopera.org
The Magic Flute: by Mozart. New production by Jonathan Miller, with sets by Roni Toren and costumes by Judy Levin. Cast includes Sheri Greenawald; Aug 26, 28

SCHLESWIG-HOLSTEIN

CONCERTS
Schleswig-Holstein Music Festival
Tel: 49-431-567 080
Matthias Goerne: recital by the baritone or works by Schubert, accompanied by Alfred Brendel; Kiel, Schloss; Aug 25

SEATTLE

OPERA
Seattle Opera
Tel: 1-206-389 7676
www.seattleopera.org
Tristan und Isolde: by Wagner. New production by Francesca Zambello, conducted by Armin Jordan. The title roles are sung by Jane Eaglen and Ben Heppner (replaced by Gary Lakes on Aug 25 & 28); Aug 25, Aug 28

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
● Tokyo Philharmonic Orchestra: conducted by Kazushi Ono in the Japanese premiere of Henze's Symphony No. 9; Aug 26
● Yomiuri Nippon Symphony Orchestra: conducted by Yukinori Tezuka in works by Mendelssohn and Dvorák; Aug 25

VERONA

OPERA
Arena di Verona
Tel: 39-045-800 5151
www.arena.it
Un Ballo in Maschera: by Verdi. New production by Giuliano Montaldo with sets by Luciano Ricceri. Conducted by Daniel Oren (Angelo Campori on Aug 26); Aug 26, 29

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

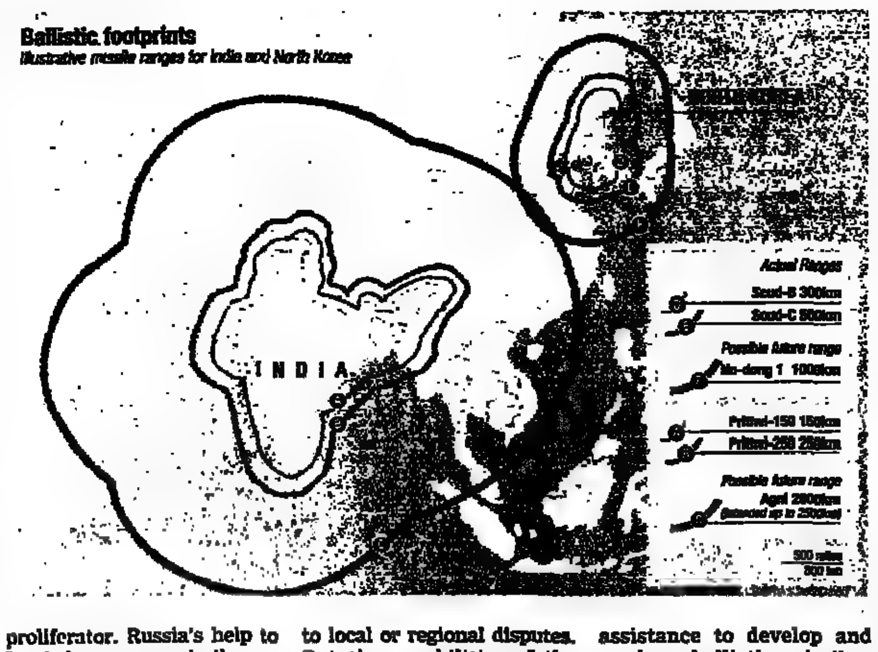
PERSONAL VIEW WILLIAM SCHNEIDER

Europe comes into range

The west must recognise the threat posed by the rapid proliferation of ballistic missiles

The threat posed by ballistic missiles and weapons of mass destruction is broader, and evolving more rapidly, than has been reported. Moreover, there may be little or no warning of the emergence of a missile threat to Europe and North America.

Ballistic footprints
Illustrative missile ranges for India and North Korea



These conclusions have emerged from a study of intelligence information undertaken at the request of the US Congress. The study, perhaps the most comprehensive recent review of worldwide missile developments, reveals the rapid change in the international security environment since the end of the cold war. The technologies of proliferation are more accessible while the inhibitions to acquiring them are rapidly receding.

This deterioration in the post-cold war security environment is the result of four related developments:

- Technological and manufacturing know-how for weapons of mass destruction has become widely dispersed. An environmental activist group publishes detailed information on *nuclear weapon design and* manufacturing on its internet website. Chemical and biological weapon information is equally accessible. The absence of clear technical distinctions between ballistic missiles and space-launch vehicles has helped undermine international efforts to contain the spread of knowledge. So has the abandonment of cold war-era export controls over "dual-use" technology.
- China, Russia and other nations have transferred enabling technologies for weapons of mass destruction to several countries. The decision to do so appears to be based on their strategic and economic interests, rather than on non-proliferation, to which they nominally subscribe. Russia's transfer of nuclear and missile-related technologies to China is facilitating rapidly accelerating strategic modernisation, and has enhanced China's role as a proliferator. Russia's help to Iran's long-range missile programmes has been crucial to its success. Russia helped Iran "reverse engineer" North Korean's No Dong missile, making possible Iran's successful launch in July of the renamed missile, the Shahab 3. China's aid to Pakistan's nuclear programme, its transfer of a turnkey medium-range missile system (the CSS-2) to Saudi Arabia, and the transfer of a complete mobile ballistic missile manufacturing system to Pakistan illustrate the point.
- Proliferation has reached the stage where it is self-sustaining among second-tier recipients. A sinister commerce has developed between North Korea, Pakistan, Iran, and others in proliferation-related technologies and hardware. The extensive and costly manufacturing infrastructure that these nations have put in place may allow further proliferation in countries such as Libya and Syria. It is unlikely that this infrastructure can be sustained solely by national requirements, so the need to develop export markets is inevitable.
- The incentives to produce weapons of mass destruction are strong. Nations seeking them are usually responding to local or regional disputes. But the capabilities of the long-range missiles they are developing far exceed the requirements of local or regional conflicts. Such long-range systems reflect a desire to deter intervention by states outside their region. Ballistic missiles and weapons of *mass* destruction also provide a source of hard currency earnings, and diplomatic influence outside their immediate region.

Meanwhile, the disincentives to producing ballistic missiles are weak. Although many nations seeking weapons of mass destruction have tactical aircraft to serve as delivery systems, ballistic missiles are the delivery system of choice. The reasons are clear. The cost of developing and operating long-range aircraft is prohibitive and the infrastructure needed to support long-range cruise missiles is sophisticated and costly. But ballistic missiles have attractive military characteristics. There are relatively few defences deployed against them, and operating costs and training requirements are low.

Thoroughly proven technology based on the second world war German V-2 and Soviet-era Scud system is ubiquitous, as is foreign assistance to develop and produce ballistic missiles. Moreover, Scud technology can be the building block for ballistic missile systems from short range (up to 500km) to intercontinental range (more than 5,500km).

Put these four developments together with the trend towards building missiles in underground facilities, where they are out of sight, and it is clear that the warning time for the deployment of ballistic missiles is shrinking fast.

There is even less time if unorthodox launch modes are employed, permitting the use of shorter range ballistic missiles – for example, India's move towards launching ballistic missiles from surface ships.

Both the US and Europe are vulnerable to such developments. But Europe is threatened more immediately. Current developments will enable proliferators in the Middle East and Asia to place all of Europe within range of ballistic missiles within five years. Yet the continent is giving little thought to how it can cope with this intensifying threat.

The author was a member of the Commission to Assess the Ballistic Missile Threat to the United States

LETTERS TO THE EDITOR

Sanctions also hit health of Iraqi children

From Mr Gabriel Carlyle.

Sir, While highlighting the role that eight years of United Nations sanctions have played in the destruction of Iraq's education system ("Sanctions lesson tells on children of Saddam City", August 19), the devastating effect that the same sanctions have had on the health and well-being of the population – particularly children – was left unmentioned.

Unicef says that, prior to the imposition of sanctions in August 1990, obesity was the main problem for Iraqi infants.

Today 27 per cent of Iraqi children under the age of five are chronically malnourished and infant mortality has increased more than fivefold.

Philippe Heffinck, the Belgian head of Unicef in Iraq, has stated that: "Whether or not it is 45,000 or 65,000" additional Iraqi children dying every year "the fact is that the number has increased substantially".

In a recent interview, Dennis Halliday, the UN humanitarian co-ordinator for Iraq, expressed the opinion that the embargo "discriminates in a sense against the weak and the poor and the lower echelons on the economic scale in a way that I find unacceptable and contrary to the basic human rights provisions of individuals throughout the world, which we in the UN are so wedded to... "I find [it] almost an incompatibility, being a UN official and overseeing a sanctions programme of this type."

Gabriel Carlyle,
junior research fellow,
Magdalen College,
Oxford
OX1 4AU, UK

Russian rouble idea is not an example of a currency board system

From Mr Terry Arthur.

Sir, Mark Evans (Letters, August 20) has a novel view of a currency board. The Russian rouble is emphatically not an example (although several other former USSR states do have currency board systems). A currency board system provides an unalterable link with the anchor currency via the simple method of 100 per cent reserve backing; there is no role for credit creation, interest-rate setting, or any other monetary policy.

What Mr Evans is rightly criticising is a central bank that not only holds a monopoly over note-issue, *but also* can create (or destroy) credit at will, and which sets interest rates which are often ridiculously low – or ruinously high.

Some Eurosceptics, although not all, believe that, given the fundamental flaws of central banks and nationalised currencies (flaws amply supported by history), a single huge central bank is far worse than several smaller ones, which at least offer a modicum of choice and competition!

For Europe, a variation on this would be – yes – national currency boards, anchored to a single well-behaved nationalised currency – if such a thing exists.

However, the likelihood of a nationalised currency behaving well over a long period of time is tiny, and even if the will is there, the relevant information is not. This is why all these alternatives are inferior to genuine free-market banking.

Terry Arthur,
Institutional Investment Strategy,
23 St Mary's Street,
Stamford,
Lincs PE9 2DG, UK

The real cost of 'duty free'

From Mr Paul Jones.

Sir, In all the waffle surrounding duty-free sales, no one has mentioned the obscene profits gained by the ferry companies. Whisky, for example, duty free out of bond, costs from as little as £1 a bottle. To describe £8 a bottle as a duty-free price is ludicrous. It certainly is not profit-free.

Until the competition from the Channel tunnel arrived, no effort was made to improve the service or prices for the sea crossing. Why should we pay outrageous prices under the subterfuge of "duty-free sales".

I have the largest selection of French wines worldwide in France and welcome the cessation of duty free, when we shall, along with other companies, be able to increase employment when we work on a level playing field.

Paul Jones,
managing director,
Le Chai Ardresien,
Ardres,
France

Japanese way may well be right for rescuing LTCB

From Mr David M. Benda.

Sir, A few months ago it was permanent tax cuts, advocated by you and the majority of western economic pundits, as absolutely vital to revive the flagging Japanese economy. The new Obuchi government duly delivered the permanency but the effect was just the opposite. The stock market was unimpressed and the Japanese consumer continues to avoid the shops.

Now it seems that you and most of the analysts have discovered another flavour in the long running and dishy "save Japan" campaign. It is the old idea that Japan will fail, as you put it, "the litmus test" if it uses public money to save the Long Term Credit Bank of Japan instead of letting it go bankrupt ("LTCB fudge", August 19; "Japanese bank rescue may use public funds", August 21).

If the LTCB is to go under for its exposure to bad debt then many other Japanese banks, if not most of them, should be closed down as well because their balance sheets are equally poor. Poor not only by the internationally agreed criteria but by the perception of the ordinary Japanese people. If not public money what else can save the banks from their disastrous lending in the late 1980s? However unpalatable it may be, the ultimate pain will be borne by the Japanese consumer.

It is probable that the Obuchi government rightly concluded that the cost of compensating the savers of the failed banks together with the incalculable but hugely negative knock-on effect on confidence is higher than the amount of used public funds.

The market seems to have given it a stamp of approval, which suggests that if the Japanese do things their own way rather than listening to western advice the results are not that bad.

David M. Benda,
consultant
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Unsettled business

The settlement between Swiss banks and holocaust survivors was far from the end of the Nazi gold affair. **John Authers, Graham Bowley** and **William Hall** report

It is less than two years since the British foreign office issued its first 16-page report on "Nazi Gold". The fall-out from this report, which gave the first official hint that Switzerland might still be sitting on 90 per cent of the gold it bought from the Nazis during the second world war, would have surprised even the most imaginative observer.

Although the foreign office later admitted that it might have overstated the amount of gold left in Switzerland because it confused Swiss francs with US dollars, the report unleashed a wave of interest in matters that had until then been the domain of thriller writers. Yesterday's 800-page report by the FCO, a compilation of contributions to last December's London conference on Nazi Gold, is a reminder of how much the story has changed since September 1996, when it seemed purely a Swiss affair.

Just the beginning? Senator Alfonse D'Amato celebrates with a Holocaust survivor after a claim against Generali is settled AP

Indeed, it reveals how much matters have moved on since earlier this month, when Swiss banks agreed to hand over $1.25bn to settle all legal claims against themselves, the Swiss government and the Swiss central bank.

Anyone who thought this marked the end of the campaign by Jewish organisations for restitution has had a rude awakening. Far from dying down, the number of European banks, insurance companies and industrial companies that are under pressure to make similar settlements is snowballing.

According to Edward Fagan, the New York attorney who first sued the Swiss banks: "We all did a disservice to survivors when we allowed the public perception to be focused towards just looking at the Swiss banks as the Nazi banks. They weren't the only ones, and the origin was back in Germany."

Now that the lawyers can show survivors that they have produced some money, from the Swiss banks, they are free to drive much harder bargains with other companies. According to Mr Fagan, many of his clients want "another Nuremberg", preferably with a German bank or industrial company.

It has been clear for some months that the various groups campaigning over Holocaust assets in the US intended to broaden the campaign. In June, the US State department published a report showing that several other neutral nations were deeply involved in supporting the Nazi war effort.

Melvyn Weiss, one of the lawyers who sued the Swiss banks, this year has sued Ford Motor and a German subsidiary over their use of slave labour during the war. He has made clear that similar lawsuits will follow. Last Friday, US lawyers filed a law suit against Degussa alleging that the German conglomerate manufactured gas used in concentration camps and processed gold taken from Holocaust victims.

The Degussa suit means that other German companies are now bracing themselves for legal action over their wartime role. There is a growing public expectation in Germany that several industrial giants such as Siemens and Daimler-Benz could face demands for compensation by slave labourers, or *Zwangsarbeiter*, who were forced to work in their factories during the Nazi period. Historians estimate that around 700,000 of the nearly 8m people forced to work in German factories are still alive. "Nobody knows where this is going now. It could be expensive," said one company.

Looted artwork has also proved an issue, with two paintings by Egon Schiele, the Austrian painter, impounded in the vaults of *New York's Museum of Modern* Art while Manhattan's district attorney sifts through claims from local residents that they were stolen. Edgar Bronfman, president of the World Jewish Congress, has claimed that the value of the works of art stolen throughout Europe exceeded the total of all art in the US in 1945.

But the issue of Holocaust victims' unpaid insurance policies has emerged as the immediate piece of unsettled business. Already, an attempt to reach an agreement through a consensual commission seems to be running into conflict with lawyers pursuing redress in the courts – the same dynamic that occurred with the Swiss banks. The World Jewish Congress had agreed with the US National Association of Insurance Commissioners, who regulate insurance in each state, to set up a 13-person international commission to settle all claims within two years.

Zurich, the first insurer to sign up to this agreement, even set up its own Volcker-*style commission*, and appointed a New York rabbi to serve on it. But 16 European insurers are being sued in New York independently of that. Last week, Generali, Italy's largest insurer and possibly the insurance company that sold the most policies to Holocaust victims in eastern Europe, decided to settle.

It is paying $100m and under the terms of the settlement, Generali will provide documents which the lawyers claim will help force other insurers into large settlements.

Several insurance commissioners reacted angrily to that deal, suggesting it did not provide enough. Deborah Senn, the insurance commissioner for Washington state, said Generali's liability might even reach $1bn. Many insurance commissioners face re-election campaigns in November, and have a strong incentive to make an aggressive stance.

Germany's industrial companies are also bracing themselves for more demands. VW lent its weight to demands for a government-backed national fund when in July it said it would independently establish its own fund to compensate slave labourers, although it has not detailed how large this fund would be.

But the German government is resisting even this idea. Bonn believes it is doing enough to compensate victims of the Nazi regime. Since 1953, it has paid around DM126bn ($70bn) to Nazi victims, although *none* of this was directly for slave labour. More recently, it has paid DM1.5bn into trust funds set up in eastern Europe, in Moscow, Minsk, Kiev and Warsaw for Nazi victims, including those forced to work for German industry. It has said German companies could pay into these.

This policy *might change* if Gerhard Schröder, the Social Democrat who is also a member of VW's supervisory board, wins next month's general election. He supports the idea of a government-backed fund to compensate former slave labourers. He is supported by other politicians.

As Gert Weisskirchen, SPD member of parliament and member of its foreign affairs committee, puts it: "It would be unacceptable that when Germany is 50 years old next year this discussion carries on and surviving victims are left out."

FINANCIAL TIMES

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Jobs and votes in Germany

Opinion polls tell us that more than two-thirds of German voters think that after 16 years Helmut Kohl has been chancellor for long enough. Yet they also want change to be neither too unpredictable nor too radical. Gerhard Schröder, Mr Kohl's challenger from the Social Democratic party (SPD), is trying to exploit the mood for change, while still keeping his options open. Partly because of the doubts this creates, the outcome remains less clear than opinion polls suggest, with only five weeks to go before polling.

Germany has changed in recent years. East Germans do not naturally divide between traditional Christian Democrats and Social Democrats, for example. Battered by the transition from communism to capitalism, and with one in five still out of work, former communists and far-right fringe parties may pick up votes. The rest of the country is also less predictable. Mr Kohl has long stolen SPD clothing to hold the middle ground. Now the telegenic and younger Mr Schröder is trying to return the compliment.

The key to the SPD campaign is its commitment to cut unemployment. But its Alliance for Jobs, intended to forge a common job-creation policy between government, business and trade unions, is still vague.

When he unveiled a programme for his first 100 days in government last week, Mr Schröder was clearer about what he would undo than what he would do. In particular, he said he would scrap Mr Kohl's recent pension reforms, along with his modest efforts to promote labour market flexibility. The SPD would also increase child allowances and reduce the tax rate to 15 per cent for low earners, in a bid to boost demand and create jobs.

The business community was unimpressed. Germany needs greater labour market flexibility and pension reform. Mr Kohl's modest measures were at last a step in the right direction. Now Mr Schröder threatens to go backwards. Yet on other occasions he preaches flexibility, through Jost Stollmann, his non-party economics adviser. His is a confused and confusing message.

With Mr Kohl too long in office and Mr Schröder so slippery, the man emerging as most popular is neither of the above. Rather, it is Wolfgang Schäuble, the CDU parliamentary leader and Mr Kohl's heir apparent.

This indicates that voters want a change of face more than of policy. It also presents Mr Schröder with a dilemma. If he can emerge as chancellor after September 27, he would be the first challenger to defeat an incumbent since the war. But he may have to form a grand coalition with the CDU – possibly with Mr Schäuble. For this reason, but also because of Germany's needs, he should propose viable policies for future government rather than focus on reforms he wants to reverse.

Libya's chance

British and US agreement that the trial of the two Libyans suspected of bombing PanAm flight 103, which exploded over Lockerbie, Scotland in 1988, can be held on "neutral" territory in the Netherlands is welcome news. Nearly 10 years after the atrocity, and seven years after warrants were issued for the two Libyans' arrest following the biggest criminal investigation in UK history, it may end a stalemate.

If Libya hands over the two suspects, they will be tried by Scottish judges under Scottish law; if convicted they will go to jail in Scotland. The neutral venue meets Libya's central claim – that the two men could not expect a fair trial in Scotland (or the US), and that it would be impossible to select an unbiased jury. No less important, the family and friends of the 270 Lockerbie victims will at last see a full airing of what happened, with the prospect of those responsible being brought to justice.

The proposal will be made formally through the United Nations after the Security Council has endorsed it. The UK and US have made clear it is not subject to further negotiation.

London and Washington are right to go this unusual route. After representations from Egypt, the Arab League and the Organisation for African Unity, they have been mulling Muammer Gadaffi's demand for a "third country" trial venue for nine months. Now this has been met, the mercurial Libyan leader has no excuse not to hand the suspects over. Additionally, Libya now has the chance to emerge from six years of debilitating UN sanctions. These would be reconsidered by the UN the moment Libya surrenders the suspects; alternatively, if Col Gadaffi refuses he could face something nearer the embargo that Iraq endures.

Tripoli has been more malleable of late, recently agreeing with France that six Libyans accused of the contemporaneous bombing of a French airliner can now be tried in absentia, and providing details to the UK of material it supplied to the Provisional IRA.

After last week's US missile attacks on Afghanistan and Sudan, this is not the most propitious moment for Mr Gadaffi's neighbours to urge his compliance. But they should. What is being proposed, after all, is due legal process, not air strikes.

Latin contagion

Asia's financial crisis has sent a chill through emerging markets. Russia has been engulfed. The risk now is that contagion will spread through Latin America, where stock markets have already fallen 40 per cent over the last year.

A sell-off across the board is scarcely justified on the fundamentals – even if it is understandable that investors who have lost billions in Russia are cutting their losses by selling other high-risk investments.

Venezuela and Brazil are the Latin American countries most susceptible to contagion. Both have large fiscal deficits and fixed currencies. But they are threatened for different reasons. The Asian crisis, by reducing demand, has led to a sharp fall in commodity prices. Oil prices are the lowest in 10 years, hurting producers such as Mexico and Colombia. Venezuela, which relies on oil for half of its government revenue, is under particular pressure. Low prices have led to a permanent fiscal deficit, political instability, and mounting pressure for devaluation.

Brazil, on the other hand, is an oil importer. Its fiscal deficit is structural, and amounts to 7 per cent of GDP – in large part reflecting high real interest payments on government debt. This is combined with a current account deficit of 4 per cent, making big capital inflows a necessity and contagion an unavoidable risk.

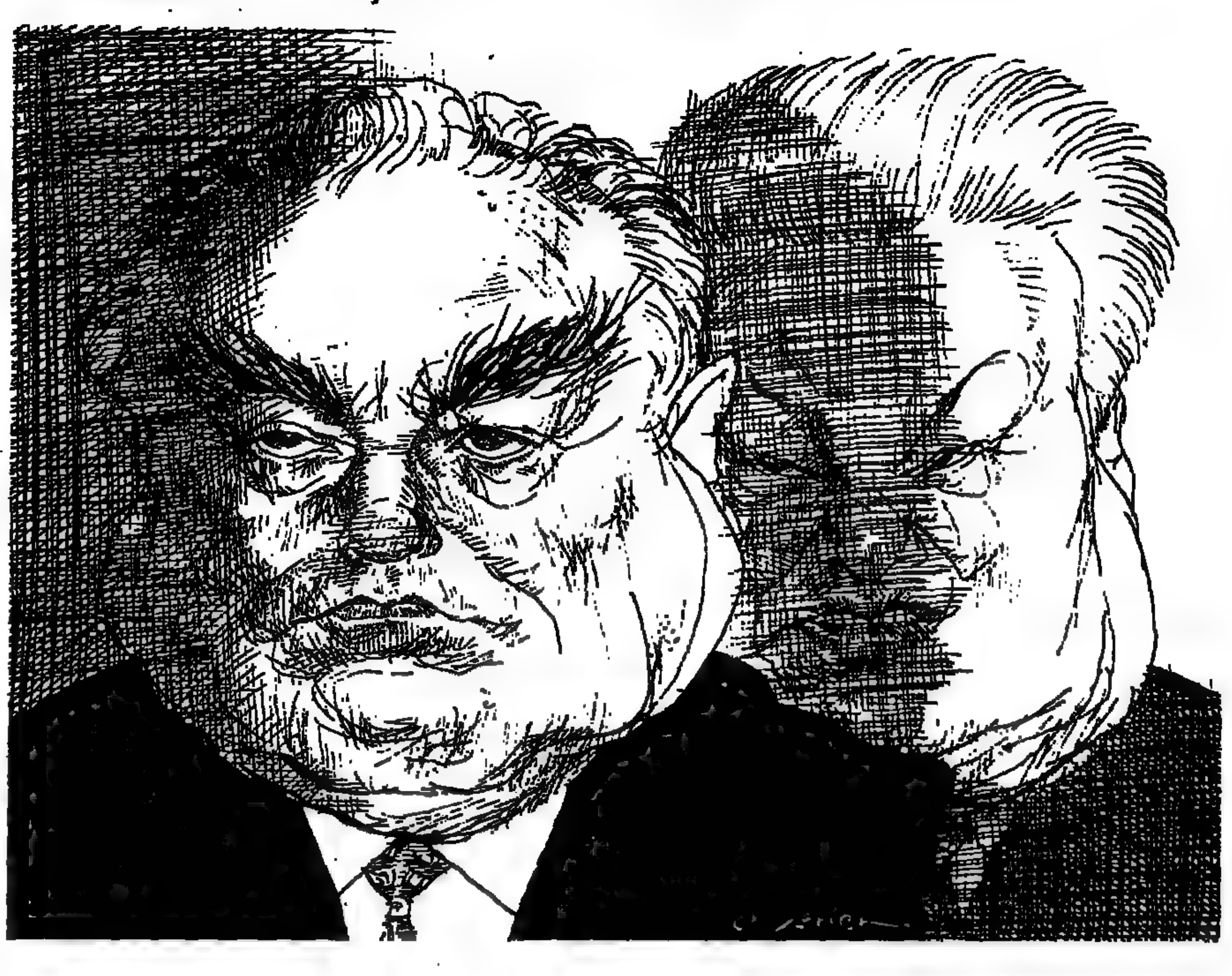
Brazil faces political uncertainty and policy paralysis in the run up to October's presidential elections, but nothing like Russia's crisis. However, institutions often see their holdings in Latin American, Asian and east European securities as part of a class of emerging market assets. Many investors have long expected that once Russia went, Brazil would follow. Brazil's deficits make it vulnerable. It is not at all clear that panicky markets will be prepared to allow the breathing space President Fernando Henrique Cardoso needs until the elections.

A Brazilian devaluation would be far more serious than a collapse in Venezuela. Brazil accounts for 45 per cent of Latin American GDP, and its troubles would quickly spill over into a regional crisis, starting with Argentina. However, Brazil is also in a good position to defend itself. It has $70bn in foreign reserves, which it hopes will be enough to see it through to October. Moreover, investment inflows are strong. Last month's sell-off of controlling stakes in Telebásbrought in $19bn, and there are more assets left to privatise. Unlike Venezuela, Brazil also has capital controls.

President Cardoso remains favourite to win re-election. Even with a renewed mandate, economic reform will be very difficult. To reassure investors, he must set out a clear and credible plan for overcoming the fiscal and current account deficits now. Brazil should not succumb to Russia's plight. It is Mr Cardoso's task to ensure it does not.

Russia's lengthening shadows

John Thornhill argues that Boris Yeltsin's attempt to establish Victor Chernomyrdin as his sucessor will remain at the mercy of economic forces that neither can control



The real significance of Boris Yeltsin's re-appointment of Victor Chernomyrdin as prime minister is that Russia has now started its transition towards the post-Yeltsin period. The hope, it seems, is that the president will gradually hand over the reins of power; that the prime minister will take more and more responsibility and that, sooner or later, Mr Chernomyrdin will succeed Mr Yeltsin as president, voters willing.

It all has precious little to do with the devaluation of the rouble, with Russia's default on its foreign debt, or any proposed change of policy to save the economy. And that is the problem. Mr Chernomyrdin may be overshadowing Mr Yeltsin. But the gathering financial crisis is overshadowing them both. Whether their emerging political deal can last the year – let alone the rest of Mr Yeltsin's term in office – depends on economic decisions that the political upheavals make harder to achieve.

During his presidency, Mr Yeltsin has repeatedly shown his readiness to sacrifice any ally or principle for the sake of political expediency. Sergei Kiriyenko, the 36-year-old former energy minister who struck many with his earnest desire to improve the lot of ordinary Russians during his five months in office, became the latest casualty of that truth. After Mr Kiriyenko failed to defuse mounting criticism of the president in the Duma (the lower house of parliament) following the devaluation of the rouble last week, Mr Yeltsin decided he had to go. Even in the midst of financial crisis, politics took precedence over economics.

But whenever that has happened before, Mr Yeltsin has cashiered his government to increase his own power and encourage reform. The clear subtext of Sunday's announcement was that Mr Yeltsin had no choice but to reappoint Mr Chernomyrdin in the realisation that his own days as president are numbered.

When the Russian president sacked Mr Chernomyrdin in March, Mr Yeltsin still appeared to harbour ambitions to run again for the presidency in 2000. His heavyweight prime minister then loomed as one of the greatest obstacles in his path. Now no one seriously believes Mr Yeltsin is in good enough physical or political shape to contest, let alone win, the next presidential elections. He is therefore keen to make his peace with Mr Chernomyrdin and protect the interests of his family when he is gone. As the liberal daily newspaper Izvestia headlined its report yesterday: "Yeltsin hands over power".

In a television address, Mr Yeltsin said it was essential to ensure "continuity of authority in the year 2000", effectively anointing Mr Chernomyrdin as his successor. "The principal merits of Victor Stepanovich [are] integrity, honesty and sturdiness. I think these qualities will become the decisive arguments in the presidential elections," he said.

In spite of more than a month on holiday, Mr Yeltsin appeared to be in a feeble state. The television footage showed him looking pale and drawn. He could later be heard slurring his words. By contrast, Mr Chernomyrdin was tanned and confident enough to interrupt Mr Yeltsin to finish his sentences for him.

Mikhail Gorbachev, the last president of the Soviet Union who knows all too well how power can slip away from those in office, had few doubts about what was happening. "It looks like the president is starting to withdraw from office step by step and handing over power to the heir," he said.

Igor Bunin, director of the Centre for Political Technologies, a political think-tank, agrees: "After Kiriyenko's performance in the Duma last week, it was clear that he was totally discredited and had become a political corpse. Mr Yeltsin could have appointed [Yuri] Luzhkov [Moscow's populist mayor] as prime minister but there were concerns about his competence. There was no option but to appoint Chernomyrdin. I consider that Chernomyrdin will be Yeltsin's heir."

As prime minister, Mr Chernomyrdin will certainly be in a powerful position to take over from Mr Yeltsin. Under the terms of the constitution, Mr Chernomyrdin would assume the presidency temporarily if Mr Yeltsin were incapacitated in office. He would then have to call fresh presidential elections within three months. In them, he would be able to make an appeal to the electorate as the "stability candidate". He could call on seemingly unlimited financial support and use the reins of power and influence to his advantage as a candidate. In the 1996 presidential election, these provide significant advantages to Mr Yeltsin.

Since being sacked five months ago, Mr Chernomyrdin has successfully remained at the centre of political affairs and forged new alliances with powerful regional leaders, such as Mintimer Shaimiev, president of the self-governing republic of Tatarstan, and with Alexander Lebed, the general-turned-governor of the Siberian region of Krasnoyarsk. Almost immediately on being sacked, Mr Chernomyrdin declared his intention to contest the presidential elections in 2000, which appeared to surprise the Kremlin. As leader of the Our Home is Russia movement, the second biggest parliamentary grouping, he has a ready-made power base.

Mr Chernomyrdin has also maintained close contact with Russia's banking and industrial elite, particularly with Gazprom, the giant gas monopoly he used to head. Many of Russia's energy bosses still speak of Mr Chernomyrdin's managerial abilities with awe and strongly supported his return to government.

> **Most of Mr Chernomyrdin's compatriots associate him with the pain of transition**

Boris Berezovsky, the shadowy Kremlin adviser and chief spokesman of Russia's "oligarchs", was among the first to visit Mr Chernomyrdin in the government headquarters. "Russia's Big Capital unconditionally supports this appointment," he said, amid rumours that he would soon be appointed a deputy prime minister.

Moreover, Gazprom and other corporate allies have been steadily amassing an armoury of media interests that is being deployed to back Mr Chernomyrdin's cause. He has ample airtime to propound his views and readers have the pleasure of sampling plenty of flattering articles about his managerial prowess.

All this sounds cannily arranged and capable of being neatly executed. The trouble is the scenario for a smooth succession has three huge defects. The most immediate is the Duma, which must approve Mr Chernomyrdin in his job. He is likely to face a rough ride. Some opposition leaders were yesterday scathing in their criticisms of Mr Chernomyrdin, saying he had failed to do anything constructive in more than five years in office and did not appear to have anything fresh to offer now. A bruising confirmation process would damage Mr Chernomyrdin's credibility as a self-styled leader of national unity.

The second problem is that, as Mr Berezovsky has frequently pointed out, Mr Chernomyrdin appears unelectable in anything resembling a free vote. He defines the word dull. Russian voters would probably fall asleep before they got to the ballot box. During his years in office, he may have done a lot for Russia's new rich but most of his compatriots associate him with the pain of transition. More than one commentator yesterday suggested that Mr Yeltsin may again outfox Mr Chernomyrdin by giving him more scope to fumble.

But the last, and perhaps most important, defect in the logic of Mr Chernomyrdin's succession plans is the disastrous condition of the economy. As Mr Kiriyenko was brave enough to emphasise, Russia is entering the beginning of a financial crisis, not the end, and must take tough measures to compel companies and individuals to pay their taxes and force insolvent banks and businesses into bankruptcy.

So far, the government's decision to float the rouble has not caused the mass alarm that many expected. The central bank has restricted the supply of US dollars to control the rouble's fall and kept tight monetary and credit policies to keep a lid on inflation. The fact that more than half of the transactions in the economy are in the form of barter has also shielded much of industry from the currency's decline.

Nevertheless, much of Russia's banking system is technically bankrupt. Mr Chernomyrdin faces a painful policy choice. He is hardly likely to force his banking friends – and future campaign contributors – into bankruptcy. Yet even a suggestion that the central bank will print money to bail the banks out would make the International Monetary Fund suspend its lending programme to Russia, leaving a massive hole in this year's budget and destroying the remnants of the government's credibility among international investors. Bad though things are, they could get worse. There are powerful voices suggesting Russia should abandon monetary austerity and pursue the "Belarussian option" – print money to give a pre-election illusion of prosperity before the ugly consequences set in.

For the moment, Mr Chernomyrdin may be relishing his return to power and the prospect of still greater things to come. But he may quickly be damned by the seemingly inescapable logic of the situation. If he tries to pursue an tough line on the economy, he risks short-term popular discontent among his backers. If he pursues a politically soft line, the economy could run out of control and wreck his presidential ambitions.

"Maybe it is fair that he who has dug the pit should fall into it," Grigory Yavlinsky, leader of the liberal Yabloko faction, said last week, predicting Mr Chernomyrdin's return to power. "And in that sense it would be fair to appoint Chernomyrdin."

OBSERVER

Magistrates follow holy orders

Italy's traditional August slumber has been rudely interrupted. A probe of the Catholic cardinal of Naples is raising awkward questions about relations between church and state.

Last week, the brother of Cardinal Michele Giordano was arrested on charges of running a huge usury and extortion operation in the south of Italy. Magistrates have pursued the investigation into the cardinal's office in Naples, seizing floppy disks, piles of documents and bank details.

Their interest centres on the recent transfer of hundreds of millions of lire from the cardinal's account in the Vatican Bank to his brother. The cardinal says he was helping because his brother had business problems.

Some have been quick to suggest that magistrates are going over the top, but Cardinal Giordano has raised eyebrows with a full-frontal attack on the justice system, accusing investigators of "jangling handcuffs" and behaving as though Italy were a "communist regime".

The Vatican is furious: officials say that the cardinal is innocent of any wrongdoing and that the affair "touches on problems of church-state relations".

The Vatican is technically a sovereign state and has a complex treaty governing relations with Italy. The cardinal has warned of "danger to the sovereignty of the church", and some argue that his offices are effectively Vatican territory, where Italian officials have no right to tread.

Sounds like an argument that will run long after the deckchairs are put away for the winter.

Power play

If you fancy living like a dictator, the Romanian government has just the thing: a night in one of the gilded palaces where former Communist leader Nicolae Ceausescu and his equally amiable wife Elena used to stay.

From next spring, it will cost just $3,000-$4,000 a night to sleep in the bed where the "Carpathian genius" rested after the onerous task of running the country into the ground, to swim in his mosaic-lined pool and to hunt some of the game he missed.

It's nearly a decade since Ceausescu was killed in the revolution that overthrew his regime, too late for the lovely villages near his hunting lodge at Snagov – the concrete-loving megalomaniac had them demolished.

But visitors to any of the palatial pads on offer won't get all the privileges of rank, such as insisting on the removal of all livestock, in case of mooing in the night or crowing in the morning. Or telling churches not to ring their noisy bells.

Neither will visitors be encouraged to refer to the locals as "worms", or to shoot them with salt-filled cartridges if they try to pick up vegetables left behind after the harvest. Even so, it still sounds better than Disneyland.

Wong fingered

It's seven months since Peregrine fell to earth, and Hong Kong regulators have at last caught up with a malefactor at the Asian investment bank.

The Securities and Futures Commission punished Wong Kin Ming for a variety of dubious practices, such as placing personal trades through someone else's account then throwing regulators off the scent with false information.

It appears that his part in the downfall of Peregrine was pretty much zero. Zero is also the likely impact of the SFC's punishment: Wong, who doesn't have a job right now and has been open to offers since Peregrine bit the dust, has been banned from trading for eight months.

Still, as the first ex-employee of Peregrine to be stripped of his dealer's credentials since the collapse, he could have a good story to tell when his grandchildren ask: "Where were you when Asia fell apart?"

SFC officials may have to use a little more imagination than Wong's if their grandchildren start asking similar questions.

Sofa so good

It was just a small, worn leather sofa, but for an hour it brought together two men from opposite extremes of the Cold War. Cuban leader Fidel Castro and former Dominican Republic president Joaquin Balaguer put aside decades of animosity in another indication of Cuba's growing easiness with its neighbours.

Balaguer may be 91 and blind, but he's still a power in the land and some think he might run again for president in 2000. In his 22 years in power, his virulent anti-communist and anti-Castro rhetoric infuriated the Cuban leader. But as they chatted on the sofa, the atmosphere seemed calm. "Sitting here, I feel like one of your soldiers," Balaguer told the man in combat fatigues.

Castro, who is 19 years younger than his host, urged him to: "Keep writing, keep writing." Dominican academics suggested that Castro can't have read much of Balaguer's output. It isn't just the ultra-rightwing rhetoric that might have troubled the Cuban leader – the racism is hard to miss.

Gone to stud

Talk about added value. A shop sign spotted on a street corner in Dublin reads: Ear Piercing, While U Wait.

The Financial Times 100 years ago

Standard Oil's Monopoly
Towards the end of last year, the Standard Oil Company of the United States made a determined attempt through its agents to secure a monopoly of the petroleum market for Germany. Though the endeavours of the company were only partly successful, there is no question that the company has not in any way relinquished the idea of not only controlling the German market, but also all the markets of the world.

50 years ago

Constellations Over The Alps
Advertisement: "Lockheed Constellations are the only passenger transports flying *over* the Swiss Alps instead of through the passes. This unique performance is made possible by the Constellation's surplus power and a pressurised cabin which allows the plane to fly at great heights while the passengers travel at a much lower "altitude" inside the aircraft. These famous airliners have flown approximately three thousand million passenger miles to date – much of it over the difficult routes across the North Atlantic."

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THE LEX COLUMN

Pyrrhic Victor

It is hard to summon up enthusiasm for Victor Chernomyrdin's reappointment as Russian prime minister. The roots of the country's current crisis lie in actions he took, or failed to take, during his previous five years in office. Moreover, Mr Chernomyrdin is closely identified with the "oligarchs" who have carved up Russia's assets for their own advantage. It would be too much to hope that he will embrace the root-and-branch reform needed to turn the country's robber baron capitalism into a modern market economy.

Still, Mr Chernomyrdin would yet do Russia a service if he was able to stabilise the financial crisis. His power base in parliament and connections with the oligarchs mean he has probably bought some time. But it will still be a tall order.

There are two immediate issues. The first is the forced rescheduling of government debt. Following last week's default, neither foreign nor domestic investors will be willing to lend new money in the immediate future. How badly the government stings investors will determine how long this lasts.

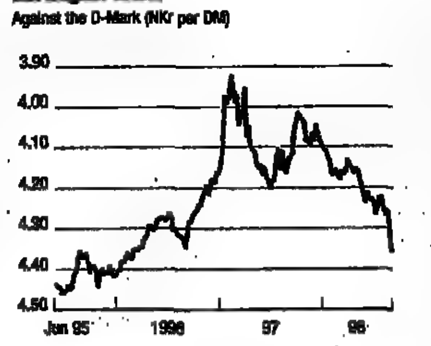
The second problem is the banking crisis. Although the Russian economy is less dependent on banking than more developed economies, it cannot view a collapse of its payments system with equanimity. It would mean a big step back towards a barter/black economy, make it even harder to collect taxes and exacerbate the government's budget difficulties.

On the other hand, Russia's fiscal crisis will make it hard to find the funds to bail out the banks. Hence the worry that the government will be driven to printing money, fuelling hyperinflation. The one hope is that Mr Chernomyrdin will be reluctant to go down this route, given his ambition to succeed Boris Yeltsin as president.

US bonds

It sounds bizarre, but US corporate bonds are the latest asset class to be hit by emerging market contagion. Spreads over US Treasuries have widened dramatically and now stand at 130 basis points on average for a typical 10-year investment grade bond – their highest for almost five years, according to ratings agency Moody's. For junk bonds, the average spread has jumped to 420 basis points, the widest since 1990.

Norwegian krone
Against the D-Mark (NKr per DM)



Source: Datastream/ICV

Some of this reflects a decoupling of the Treasuries market, where yields hit new lows last week, while risk premiums elsewhere have been rising. Corporate bonds have also lost the favourable backdrop of a steadily rising equity market. And profits at export-oriented manufacturers and commodity producers are suffering.

But large parts of corporate America, including the service sector, are still growing and corporate credit quality remains high. Interest cover for US non-financial companies is a healthy five times, compared with 1.6 times at the end of the last economic boom in 1989. Default rates are still well below average at 2.8 per cent of outstanding junk bonds.

A more legitimate concern is the flood of new issues. Companies are taking advantage of what are still very low absolute rates and the total volume of new US corporate bonds this year is on the way to a record of more than $300bn. Even so, for those focusing more on income, the recent correction offers some tempting bargains.

Norway

Take one oil-rich kingdom, add a dash of loose fiscal policy, simmer for a year with rising inflationary pressures – and you end up with Norway's overheated economy and weakening currency. Faced with such a recipe, it is not surprising that the Norwegian krone has tumbled against the D-Mark. Despite the central bank's best efforts – short-term interest rates have risen seven times, to 8½ per cent from 4 per cent in January – the krone has barely responded.

Now the bank has decided enough is enough and vowed to leave rates unchanged – at least for the time being. Apart from leaving the krone defenceless, this strategy risks exposing a deeper malaise – that the government's so-called "solidarity alternative" is not working. This requires the government to use fiscal policy to control growth, while wage moderation is expected to damp inflation. Theoretically, the central bank can apply monetary policy to maintaining a stable krone. But Norway's weak centre-right coalition has failed to tighten fiscal policy or curb wage growth. On top of that, the country's oil surplus will fall from an estimated NKr92bn to NKr27bn this year.

Given such pressures, interest rates were never likely to be enough to safeguard the currency. Now the central bank has played its hand, it is up to the government to impose the necessary fiscal measures to put the economy back on track. Whatever happens, a hard landing looks inevitable.

EMI/PolyGram

Investors gave a decisive thumbs-down yesterday to the revelation that EMI is interested in buying PolyGram's film business. One can see why. For a start, moving into films would be a strategic volte-face. Sir Colin Southgate, EMI's chairman, used to tell the City that he saw no advantage in combining music and films. Add to that the fact that the core music business is not doing too well and that EMI's top management has recently been in turmoil. Would it not be sensible for EMI to put its house in order first before embarking on a risky new acquisition?

That said, combining music and films is not completely ridiculous. Film sound tracks are an obvious synergy and it ought to be possible to use the same network to distribute videos and compact discs. Meanwhile, when digital video discs take off, they could be manufactured in the same plants as CDs. But shareholders seem inclined to view all this as small beer. Sir Colin will need compelling arguments to convert the doubters if he does win the PolyGram auction.

UN snubs call by Sudan for missile attack inquiry

By Mark Huband in Khartoum and Laura Silber at the United Nations in New York

The United Nations Security Council yesterday distanced itself from a request by Sudan for an investigation into the US missile attack on a Khartoum factory.

No council member endorsed Sudan's request for a technical investigation into the attack, which was backed by the Arab League and the Organisation of Islamic Conferences.

Leaving the council meeting, Peter Burleigh, US ambassador to the UN, said: "I don't see what the purpose of a fact-finding study would be. We have credible information that fully justifies the strike we made on that one facility in Khartoum. The council reviewed the question this morning and will keep it under consideration."

Bahrain, the lone Arab council member, said further information was needed before the council could take formal action.

Arab states yesterday jointly condemned the US missile attack on Sudan after days of wavering by governments keen to prevent Sudan using anti-US public opinion as a lever to diminish its isolation from other Arab countries.

After four days of equivocation, the Arab League denounced the bombing by US Tomahawk cruise missiles on August 20 as "an attack against the sovereignty of states" and said it would help Sudan "eradicate the effects of the American strikes and support Sudan in international organisations".

Sudan said it would would seek redress for the missile attack on the Khartoum pharmaceuticals factory, for which the Sudanese president held both the US and "treacherous" Sudanese opposition leaders responsible.

The Arab League statement supported Sudanese claims that the site was a pharmaceuticals factory and had no other purpose.

In his most detailed statement since the destruction of the factory, which the US has since claimed was being used to produce chemical weapons, President Omar Hassan al-Bashir said Sudan would respond to the attack in the near future.

"We reserve the right to fight back. And this may happen in due time," he said at a press conference in Khartoum. "But we are talking about legal means to respond. Do you think that we have the capacity to attack the US?" he said, when asked what form the response would take.

However, the attack on Sudan and the simultaneous launching of 70 cruise missiles on a site in Afghanistan that the US claims is the centre of a terrorist network led by the Saudi Arabian dissident Osama bin Laden, has forced the leaders of many Moslem countries to respond to heightened anti-American public opinion.

The US launched the missile attacks after accusing Mr bin Laden of masterminding the bombings of the US embassies in Kenya and Tanzania on August 7, which left 263 people dead.

The Arab League, of which Sudan is a member, appeared more preoccupied with keeping the lid on Arab public opinion than on the impact the US action may have had in limiting the activities of militant groups, by which many of the league's governments are threatened.

Newspapers throughout the region have condemned the US action in the most virulent terms.

US, UK propose Netherlands as venue for Lockerbie trial

By Andrew Parker in London and Stephen Fidler in Washington

The UK and US governments yesterday moved to end the diplomatic stand off over the Libyans accused of the Lockerbie bombing by proposing that the trial be held on neutral territory, in The Netherlands.

The latest plan would involve the Libyans being tried by three Scottish judges at the Hague, which is the seat of the international court of justice, possibly in May.

Robin Cook, British foreign secretary, held out the prospect of the UN lifting its sanctions against Libya if Muammer Gadaffi, the country's leader, accepted the proposal. He described it as an "historic innovation in international legal practice".

However there were also intimations that sanctions might be toughened if the proposal was turned down.

Libya had rejected the UK and US governments' previous insistence that the two Libyans, Abdul Baset Ali Al Megrahi and Lamin Khalifa Fhimah, the two Libyans, stand trial in Scotland or the US over the bombing of Pan Am flight 103 over Lockerbie in Scotland in 1988. All 259 passengers and crew were killed, together with 11 Lockerbie residents.

Lord Hardie, a senior Scottish legal figure, said he had reluctantly accepted that unless the trial were held outside the UK or the US, there was no prospect of the two Libyans appearing before a Scottish court.

Alistair Duff, Scottish lawyer for the two Libyans, said: "This proposal is certainly not being rejected", adding that his clients would need various assurances before agreeing to stand trial at the Hague.

Mr Cook said the court would administer Scottish law, under Scottish procedures and Scottish rules of evidence. A majority verdict would be accepted.

Madeleine Albright, US Secretary of State, who spoke in a telephone conference call to relatives of the victims yesterday morning, said the proposal was "a way to call the Libyan government's bluff and to bring the fugitives to justice at long last."

She added: "Let me be clear: the plan the US and UK are putting forward is a take-it-or-leave it proposition. It is not subject to negotiation or change, nor should it be the subject of any additional foot-dragging or delay."

Libya, she said, had stated its readiness to deliver suspects to a Scottish court sitting in a third country.

A senior administration official said the proposal would be put before the UN Security Council, which has repeatedly called for the Libyan government to hand over the suspects, perhaps as soon as today.

Editorial Comment, Page 13

CONTENTS

Anti-apartheid cleric Allan Boesak at Cape Town High Court with his wife, Elna. He denies embezzling charity funds Page 4 Reuters

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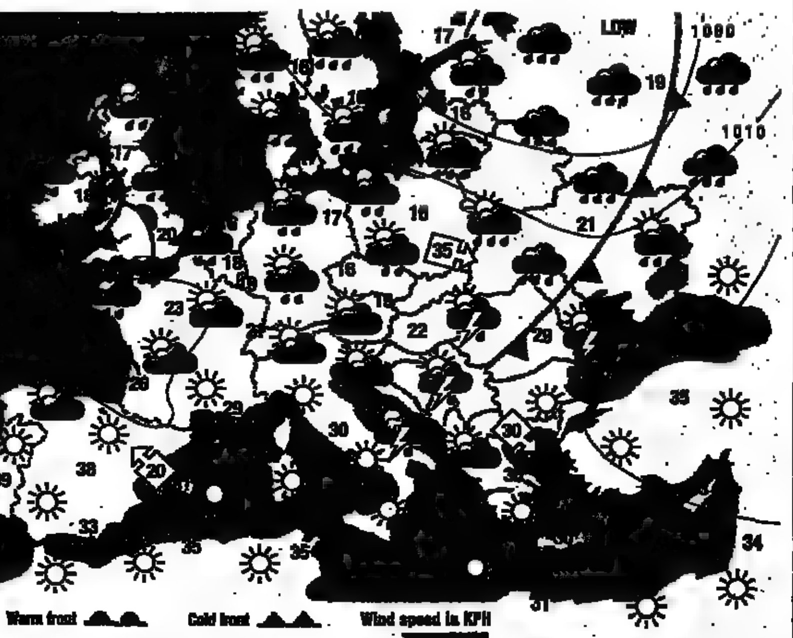
FT WEATHER GUIDE

Europe today

Most of southern Europe will stay hot and sunny although isolated thundery showers are possible in Italy and more widespread thunderstorms across the Balkans. Spain and Portugal will be particularly hot. The Alps and much of France will be fine with some warm sunshine. However, the far north of France, the Low Countries and Germany will be cloudier with a few light showers. Scandinavia and north-east Europe will be unsettled with showers and longer spells of rain.

Five-day forecast

Northern Europe will be unsettled and cool tomorrow with showers as far south as the Alps. Later in the week the showery weather will become confined to central and north-east Europe. Southern Europe will be mostly hot and sunny but scattered thunderstorms are likely.



Situation at midday. Temperatures maximum for day. Forecasts by 'PA' WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	43
Accra	Cloudy	26
Algiers	Sun	35
Amsterdam	Shower	16
Athens	Sun	35
Atlanta	Sun	37
B. Aires	Fair	16
B.ham	Drzzl	19
Bangkok	Thunder	31
Barcelona	Fair	29
Beijing	Fair	32
Belfast	Rain	17
Belgrade	Thunder	22
Berlin	Shower	17
Bermuda	Shower	31
Bogota	Fair	18
Bombay	Thunder	33
Brussels	Shower	18
Budapest	Fair	22
C.hagen	Shower	17
Cairo	Sun	34
Caracas	Fair	32
Cardiff	Shower	15
Casablanca	Fair	27
Chicago	Thunder	29
Cologne	Shower	18
Dakar	Fair	29
Dallas	Fair	38
Delhi	Fair	27
Dubai	Sun	42
Dublin	Shower	18
Dubrovnik	Fair	28
Edinburgh	Cloudy	16
Faro	Sun	30
Frankfurt	Shower	19
Geneva	Fair	21
Gibraltar	Sun	28
Glasgow	Cloudy	17
Hamburg	Rain	16
Helsinki	Shower	17
Hong Kong	Fair	30
Honolulu	Fair	32
Istanbul	Sun	33
Jakarta	Cloudy	33
Jersey	Drzzl	20
Johannesburg	Sun	19
Karachi	Sun	36
Kuwait	Sun	45
L. Angeles	Sun	28
Las Palmas	Sun	28
Lima	Cloudy	20
Lisbon	Sun	39
London	Rain	20
Lux.bourg	Shower	19
Lyon	Fair	24
Madeira	Fair	27
Madrid	Sun	38
Majorca	Sun	31
Malta	Sun	32
Manchester	Rain	17
Manila	Cloudy	34
Melbourne	Cloudy	15
Mexico City	Fair	25
Miami	Sun	34
Milan	Sun	30
Montreal	Shower	28
Moscow	Rain	19
Munich	Fair	19
Nairobi	Cloudy	24
Naples	Thunder	32
Nassau	Thunder	33
New York	Thunder	33
Nice	Sun	29
Nicosia	Sun	33
Oslo	Shower	16
Paris	Fair	28
Perth	Fair	20
Prague	Shower	16
Rangoon	Thunder	30
Reykjavik	Rain	13
Rio	Fair	25
Rome	Fair	30
S. Frsco	Fair	24
Seoul	Fair	27
Singapore	Thunder	31
Stockholm	Shower	16
Strasbourg	Fair	21
Sydney	Fair	17
Tangier	Sun	32
Tel Aviv	Sun	34
Tokyo	Shower	28
Toronto	Thunder	28
Vancouver	Shower	19
Venice	Sun	32
Vienna	Fair	19
Warsaw	Shower	16
Washington	Fair	34
Wellington	Rain	12
Winnipeg	Thunder	26
Zurich	Fair	19

FINANCIAL TIMES

COMPANIES & MARKETS

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INSIDE

2,100 more to go in $60m Northrop Grumman shake-up

In addition to earlier cuts Northrop Grumman, the US-based aerospace group, is to cut 2,100 more jobs. It will take a $60m charge this year to cover the costs of the streamlining, intended to save about $300m annually from 2001 when the cuts are projected to end. Page 16

South African selling hurts Billiton

A year after its London listing, Billiton, the metals and mining group spun off from South Africa's Gencor, has the "honour" of being the worst-performing Footsie share. The group, chaired by Brian Gilbertson (left), has been hit by the metals price slump. But South African institutional investors that owned 78 per cent of the group have cut their interest to 60 per cent. Page 18

MSCI alters index for India

Morgan Stanley Capital International has made radical changes to its Standard Index for India, which is used as a benchmark for traders. The change recognises the growth of the software sector, which has risen seven times in value since January 1996. Capital Markets, Page 20

Canadian dollar hits 140-year low

Commodity-exporting countries' currencies were attacked. Norway raised interest rates for the second time in four days after the krone hit a six-year low against the Ecu, while Canada's dollar fell to a new 140-year low against the US dollar. Currencies, Page 21; Lex, page 14

Indian stocks receive dose of cheer

The State Bank of India has raised about $4bn through the issue of sovereign Resurgent India bonds, giving stocks some cheer. Equity markets are on tenterhooks after the Reserve Bank of India last week tried to halt a sharp decline in the rupee's value. Bilan Jalan (left), RBI governor, raised the repurchase rate by 3 percentage points and increased the cash reserve imposed on banks. Emerging Market Focus, Page 32

Rubber growers in move for control

Thailand and Malaysia's decision to withdraw from the International Natural Rubber Organisation will almost certainly mean the end of its global agreements. They intend forming a new group and exercising more control over the price of natural rubber. Commodities, Page 22

COMPANIES IN THIS ISSUE

CROSSWORD, Page 22

MARKET STATISTICS

Stena Line executives lose their jobs in cost-cutting shake-up

Ferry operator reports first-half losses of $65m

By Tim Burt in Stockholm

Stena Line, the world's largest ferry operator, yesterday disbanded its entire executive management team and announced the departure of six senior directors, including the finance director, in the latest attempt to cut costs and return the group to profit.

The Swedish company, which earlier this year merged its short-sea English Channel routes with P&O of the UK, said it was winding up a number of central functions.

The move follows the arrival of Bo Severed as Stena's new chief executive earlier this month. Mr Severed, recruited from Stena rival Scandlines, said the redundancies underlined his commitment to reversing operating losses and adapting the group to the expected abolition of duty-free sales on travel within the European Union next year.

The most senior of the executives losing their jobs is Anders Hedberg, finance director since 1991. Also leaving are the directors of human resources, business development, on-board services, communications and passenger sales. In addition, Stena said Gareth Cooper, chairman of its UK subsidiary, would assume a non-executive role.

"It has come as a big shock and we have been told to clear our desks this week," said one of the managers, who asked not to be named. The high-level departures signal a more aggressive phase of Stena's SKr350m ($43m) restructuring, which is expected to lead to 450 redundancies. Mr Severed, making his first results statement, said the management functions would be devolved largely to a new operating structure, based on each Stena route.

Stena reported first-half losses of SKr530m ($65.4m) – almost unchanged on the SKr535m deficit in the first six months of 1997. Sales were down from SKr4.27bn to SKr3.42bn.

Stena's most commonly traded B shares fell 9 per cent or SKr1.60 to SKr17 as the group warned that further restructuring costs and falling volumes would lead to a full-year loss. Last year, Stena made a pre-tax profit of SKr151m.

Mr Severed said the first-half figures had been dented by the absence of contributions from Stena's short-sea English Channel routes, which have been operated by the P&O Stena Line joint venture since March. Although Stena claimed the joint venture had captured 33 per cent of tourist traffic on those routes, it made a £9.3m ($15.3m) loss in the period from March 10 to June 30 – exacerbated by £16m of restructuring charges and £7.7m in interest costs.

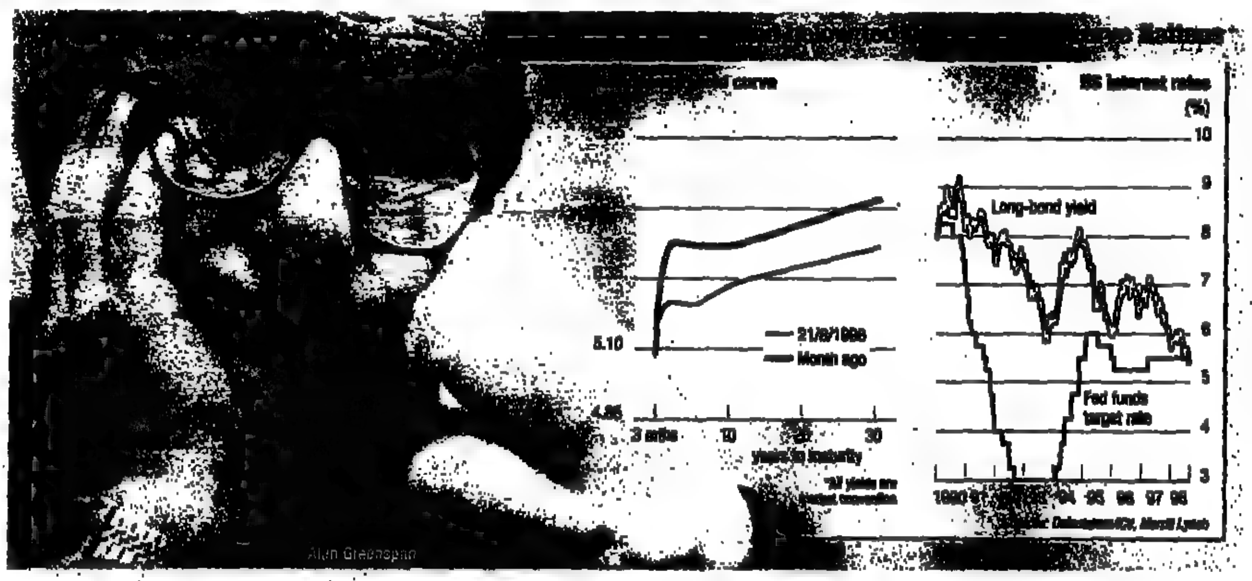
The group said the freight market over the English channel continued to be volatile but prices had stabilised and were higher than in 1997. However, the company said structural changes on Channel operations would burden 1998 results and significant cost savings would not be apparent before 1999.

Meanwhile, Stena's remaining operations were hit by mixed demand and transport strikes in Denmark and Norway. Although operating costs fell from SKr4.06bn to SKr3.34bn, the group saw operating losses deepen from SKr261m to SKr305m. Losses per share were SKr7.10, compared with SKr6.70 last time.

FINANCIAL TROUBLES IN RUSSIA AND ASIA HAVE PUSHED YIELDS ON TREASURIES BELOW FEDERAL FUNDS RATE

Bad news is good for the US bond market

By Tracy Corrigan and John Labate in New York



Alan Greenspan

Bad news is good for the US bond market. Growing concerns about the financial troubles of Asia, Russia and Latin America have sent US Treasury yields tumbling to their lowest levels in decades.

Moreover, long bond yields have achieved the remarkable feat of sinking below the Federal funds rate, which has been stable at 5.5 per cent. Federal funds is the short-term interest rate targeted by the US Federal Reserve Bank as means of controlling monetary conditions.

By the end of New York trading on Friday, the 30-year yield was at 5.462 per cent, and yesterday the bond continued to trade below what had been considered a firm resistance level of 5.5 per cent.

"This is unusual and unprecedented," says Kevin Logan, senior market economist at Dresdner Kleinwort Benson in New York. He said that previously when the bond yield had been lower than the Fed fund rate it occured when the Federal Reserve had been tightening monetary policy.

According to economists, this state of affairs is the result of a flight to quality triggered by financial woes outside the US rather than by the state of the domestic economy. "It's all about financial turbulence," says Dan Seto, senior economist at Nikko Securities in New York. Based on a pure analysis of the US economy, "two-year note [yields] should be about 75 basis points above Fed funds", reckons Mr Seto.

Nevertheless, analysts do not expect an early end to the bull market for bonds. "The flight to safety... will probably continue until firm solutions are put in place" in at least one of the trouble spots causing investor jitters, said Kevin Flanagan, money market economist at Morgan Stanley Dean Witter.

While other factors, such as the cutbacks in Treasury supply in the past year resulting from the US federal budget surplus, have contributed to the bond market rally, most analysts agree that the flight to quality is the primary driver.

Analysts are divided over whether there is potential for a further rally. "If Russia gets worse or Venezuela or Brazil has an official devaluation, there could be another flight to quality that could gradually run [30-year] bond yields down to 5.25 per cent," says Elliott Platt, director of economic research at Donaldson, Lufkin & Jenrette in New York.

But Mr Flanagan says that while he expects bonds to trade at or below Fed funds "for the foreseeable future", he believes a further substantial rally in bond prices is likely only if the US economy shows signs of weakness or US share prices fall sharply. For example, he notes that bond prices rallied last Friday when share prices fell.

Most analysts believe that, despite some signs of a weakening of the US economy, the Federal Reserve, under its chairman, Alan Greenspan, is still some way from considering easing interest rates. But this may not deter investors from keeping their money in US bonds. "You're not going to lose money" in bonds, argues Mr Flanagan and that is the priority for many investors.

Dollar-denominated assets "will remain relatively attractive", agrees Mr Seto, but he warns that "the investor must be vigilant and watch for any development that can affect exchange rates" since this could take some of the steam out of the flight to quality.

Despite the flattening of the yield curve, analysts do not expect it to invert – with long bond yields falling below those of two-year Treasury notes. Inverted curves can be a sign that a recession is on the way.

Nevertheless, says Mr Seto, "we could easily go to the year end with Fed fund rates above bond rates".

Intel launches faster, cheaper PC chips

By Louise Kehoe in San Francisco

Intel yesterday launched higher performance microprocessor chips that are expected not only to boost the performance of personal computers but also to fuel rapid declines in PC prices.

With significantly lower than expected prices, the new Intel Pentium II and Celeron microprocessors are expected to lead to lower PC prices in both the "basic" home computer segment and the "performance" desktop segment by the end of this year.

Intel's Celeron chips, for use in "basic PCs" that currently sell for about $1,000, represent a second attempt by the chip industry leader to defend its turf against recent incursions by competitors such as Advanced Micro Devices and National Semiconductor.

The first Celeron chips, introduced in April, underperformed similar devices from Intel's rivals but Intel has added chip memory to boost the processing speed and make the chips more competitive.

Although technical details of the chips had been widely anticipated, Intel surprised the industry by undercutting the prices of its rivals in a clear attempt to achieve a greater share in the fastest growing segment of the PC market.

Intel also introduced the latest addition to its Pentium II line of microprocessors, employed in a broad range of computers including those most widely used in offices.

The new chip, which runs at 450MHz versus a previous high speed of 400MHz, carries a price tag of $699.

This is significantly lower than Intel's typical prices for new high end chips of about $800-$900.

While the highest performance PCs in any market segment typically sell at a premium, Intel's pricing is likely to accelerate the decline in prices of slightly lower performance machines, according to industry analysts.

Basic PCs selling for as little as $500-$600 may begin to appear within a few months, they predicted.

Yesterday Intel was trading at $84⅝ in mid session, down $⅝ from Friday's close.

Technology, Page 10

Goldman Sachs aims to keep staff with staggered shares

By Tracy Corrigan and William Lewis in New York

Goldman, Sachs & Co, Wall Street's largest remaining investment banking partnership, will attempt to tie partners and other employees to the firm by locking up discretionary shares for up to five years following its initial public offering this autumn.

The firm also revealed in a preliminary filing yesterday that it will become Goldman Sachs Group Inc when it goes public. The offering will be arranged by Goldman Sachs and structured as a global IPO with US, European and Asian tranches. The final prospectus is due to be issued in the first week of October. It will contain Goldman's pro forma earnings, helping analysts to calculate the likely value of the company. The IPO is slated for November.

Goldman also plans to establish a charitable foundation of more than $300m. The Goldman Sachs Foundation will be closely connected to the firm, and under US law will have to disburse a certain percentage of its assets every year.

The prospectus, filed yesterday with the Securities and Exchange Commission, the US regulator, disclosed that one-third of partners' shares will be unlocked after each of the third, fourth and fifth years following the offering. Each partner could be in line for windfalls of more than $40m in shares and restricted stock after the IPO, based on estimates that value the company at about $25bn.

Senior partners, including members of the six-strong executive committee, due to become board directors when Goldman becomes a public company, could get more than $250m each.

As part of the plan to distribute $5bn-6bn to employees below partnership level, Goldman will give all these staff an award based on 50 per cent of 1998 compensation and a cash award based on years of service. This award will vest immediately, but will be paid in the second and third years after the IPO.

The prospectus also disclosed the inclusion of some anti-takeover devices, such as a staggered board, which makes it harder for a bidder to change the board of a company.

Foster's scales back in China

By Gwen Robinson in Sydney

Foster's Brewing Group, Australia's largest brewer, has signalled a big shift in strategy towards China, putting two of its three breweries there up for sale and taking a writedown on its investments.

The move is a sharp turnround from the group's position last year, when it indicated a commitment to its Chinese investments. But mounting losses led to an investment writedown of A$167.7m (US$97.5) and a decision to sell its Tianjin and Guangdong breweries.

"We concluded it is too expensive to have three breweries operating in such a difficult climate while, at the same time, investing in the development of the Foster's brand," said Ted Kunkel, the group's president and chief executive. He said Foster's was seeking expressions of interest in the two breweries and was writing down the China operations to a conservative valuation.

Mr Kunkel was speaking after the company reported a 78 per cent jump in net profit for the year to June to A$446.6m, exceeding analysts' expectations. The net figure included abnormal gains of A$171.4m, after tax, mainly from the group's A$1.1bn sale of its half-share in Molson Breweries of Canada. The sale, which took place in June, generated a net gain of $480m.

The group's strong gains, however, were offset by its writedown on Asian businesses and a charge of A$105.7m from rationalisation and efficiency initiatives elsewhere in the group. Net profit before abnormals rose $6.9m to $275.2m, while the dividend was steady at 6 cents.

Mr Kunkel said the group hoped to halve its losses from Asia after consolidating its China assets. It would then focus its Chinese brewing operations in Shanghai, with sales and distribution centres in Beijing and Guangzhou.

On the domestic front, the group saw strong underlying profit growth in its core businesses. Pre-tax profit at Carlton and United Breweries, its main Australian unit, increased nearly 16 per cent to $421m, the sixth consecutive year of double-digit growth.

INVESTMENT MARKET JITTERS DEPRESS SHARES OF BANCO BILBAO VIZCAYA AND BANCO SANTANDER AS WELL AS TELEFONICA

Latin American fears hit Spanish banks

By David White in Madrid

Shares in Spain's two biggest bank groups had by last night lost one seventh of their value in three days of trading due to financial jitters over Latin America.

A further fall yesterday on the Madrid Bolsa again inflicted most damage on large groups which have undertaken ambitious Latin American investment drives.

Banco Bilbao Vizcaya's shares fell another 3.4 per cent to Pta2,280, after losing 8.5 per cent on Friday and 3 per cent on Thursday. A rival, Banco Santander, fell 3.1 per cent to Pta3,270 following losses of 9.9 per cent and 4.2 *per cent* in the two previous trading sessions – an accumulated decline of 16.4 per cent.

Telefónica was also among *the main sufferers*, with its share price closing yesterday at Pta6,450, more than 3.7 per cent down on the day and 13.5 per cent lower than last Wednesday's close of Pta7,460.

This follows the group's boldest step to date in Latin America, when it almost doubled its total investment in the region to around $11bn through bids last month for two parts of Brazil's Telebrás empire. It won control of the São Paulo company Telesp and cellular operations in the states of Río de Janeiro and Espírito Santo. The moves were financed through a Pta427bn ($2.8bn) rights issue.

The Madrid general index fell yesterday by 13.66 points, or 1.64 per cent, to 820.29, while the Ibex-35 index of leading stocks showed *a similar fall*, to 9,262.8 in heavy turnover. Banks and telecommunications led the decline, which followed a 5.81 per cent slide in the Ibex-35 on Friday, one *of the largest falls on record.*

In spite of the market upset and fears of financial instability in Venezuela and other regional markets, BBV *reaffirmed its policy of seek*ing continued expansion in Latin America, where it has invested some $3.5bn in the past few years.

The Spanish bank, which recently secured a controlling stake in BHIF, a Chilean bank, and is awaiting due diligence studies on the takeover of Banco Excel in Brazil, confirmed it was looking at a possible move into Paraguay, where it is reported to be in discussions over Banco Pan de Azúcar.

BBV said its Latin American expansion was a long-term strategy, aimed at securing management control of leading banks in all the main markets of the region. "We intend to stay there," it said, adding that its Latin American interests had recently accounted for about 28 per cent of group pre-tax profits.

In Venezuela, main focus of the latest Latin American turmoil, both BBV and Banco Santander have prominent stakes in the retail banking sector – the former through Banco Provincial and the latter through Banco de Venezuela.

Rodrigo Rato, Spanish *finance minister*, sought to reassure investors yesterday, emphasising that Spanish acquisitions were aimed at the medium and long term. "There is confidence that Latin America will be, and already is, one of the world's growth zones," he said.

World Stock Markets, Page 30

Doubts emerge over San Miguel sale

By Justin Marozzi in Manila

Shares in San Miguel yesterday sank 4 per cent amid "grave concern" that Eduardo Cojuangco, chairman and chief executive of the ailing *Philippine food* and beverage group, was planning to sink some of the proceeds from the 29bn pesos ($677m) sale of its stake in *Nestlé Philippines into his* private businesses.

Senior San Miguel officials yesterday tried to explain the rationale behind the sale *of the group's 45 per cent* stake in Nestlé Philippines, announced last Friday.

They said the divestment would strengthen San Miguel's financial profile, enhance its ability to focus on core businesses and allow for more "active management" in other opportunities.

*Following the sale, earn*ings per share would increase by 0.6 pesos on an annualised basis. The B shares fell 2 pesos to 48 *pesos in a weak market.*

However analysts said although the sale price was higher than the market's valuation of Nestlé Philippines, they were not convinced by the group's explanation.

San Miguel's record in the food business was not strong; it had already strengthened its balance sheet with the recent sale of its $555m stake in London-listed Coca-Cola Beverages, and Nestlé *Philippines* was the "crown jewel" among its food businesses, said one analyst at *a foreign* brokerage.

"There is grave concern *that Cojuangco is planning* to declare a cash dividend after this sale that would allow him, through his 20 per cent stake, to skimp off cash legally and transfer it to some of his private concerns," he added.

Although there has been no definitive ruling yet on the ownership of a 48 per cent stake in San Miguel claimed by Mr Cojuangco, a recent court ruling allowing him to vote a 20 per cent tranche is widely regarded *as the first step to his recov*ery of a sizeable portion of the group.

Critics accuse Mr Cojuangco, an important *political ally of President* Joseph Estrada, of siphoning off funds from San Miguel into his private businesses when he last headed the group during the presidency of the late dictator Ferdinand Marcos.

Broker Indosuez W. I. Carr said the Nestlé sale would weaken San Miguel's asset portfolio although it would add 469m pesos to the bottom line in 1998 and 1.1bn pesos in 1999.

The divestment would leave *the group with net* cash of about 15bn pesos, compared with net debt of 33.8bn pesos at the end of June and 10.7bn pesos after *the sale of CCB shares.*

"The big question is what's Cojuangco going to do with all this money?" said John Mangun, director for *portfolio* management at I. B. Gimenez Securities, a local brokerage.

Job cuts, disposals revive Holzmann

By Graham Bowley in Frankfurt

Philip Holzmann, the German construction group, will shrug off the woes of the country's stagnant building *market and make* a small profit this year, its chief executive said yesterday.

Heinrich Binder, the industrialist bought in last year by Deutsche Bank to end years of losses, said buoyant international orders were driving the recovery, which follows one of Germany's most dramatic corporate restructurings.

He told the group's annual meeting that measures to return the company to profit – including job cuts, selling non-performing businesses, vetting the prospects of new orders and the scaling-back of activities in Asia and France – were proving effective. The company would record an operating profit this year, its first since 1994.

But the company's latest trading results illustrated that Germany's construction market remains severely depressed.

New orders increased 11.3 per cent in the first six months of this year to DM6.2bn ($3.4bn). However, new orders in Germany fell 14.5 per cent to DM2.8bn. Turnover declined 6.6 per cent to DM6.1bn. In Germany, turnover dropped 15 per cent to DM3.4bn.

Construction groups such as Holzmann had run into difficulties by taking on orders which generated short-term cash but were unprofitable. Holzmann was also affected by the painful recession in the German construction industry and by its rapid expansion in the 1980s and early 1990s which proved unsustainable and resulted in big losses.

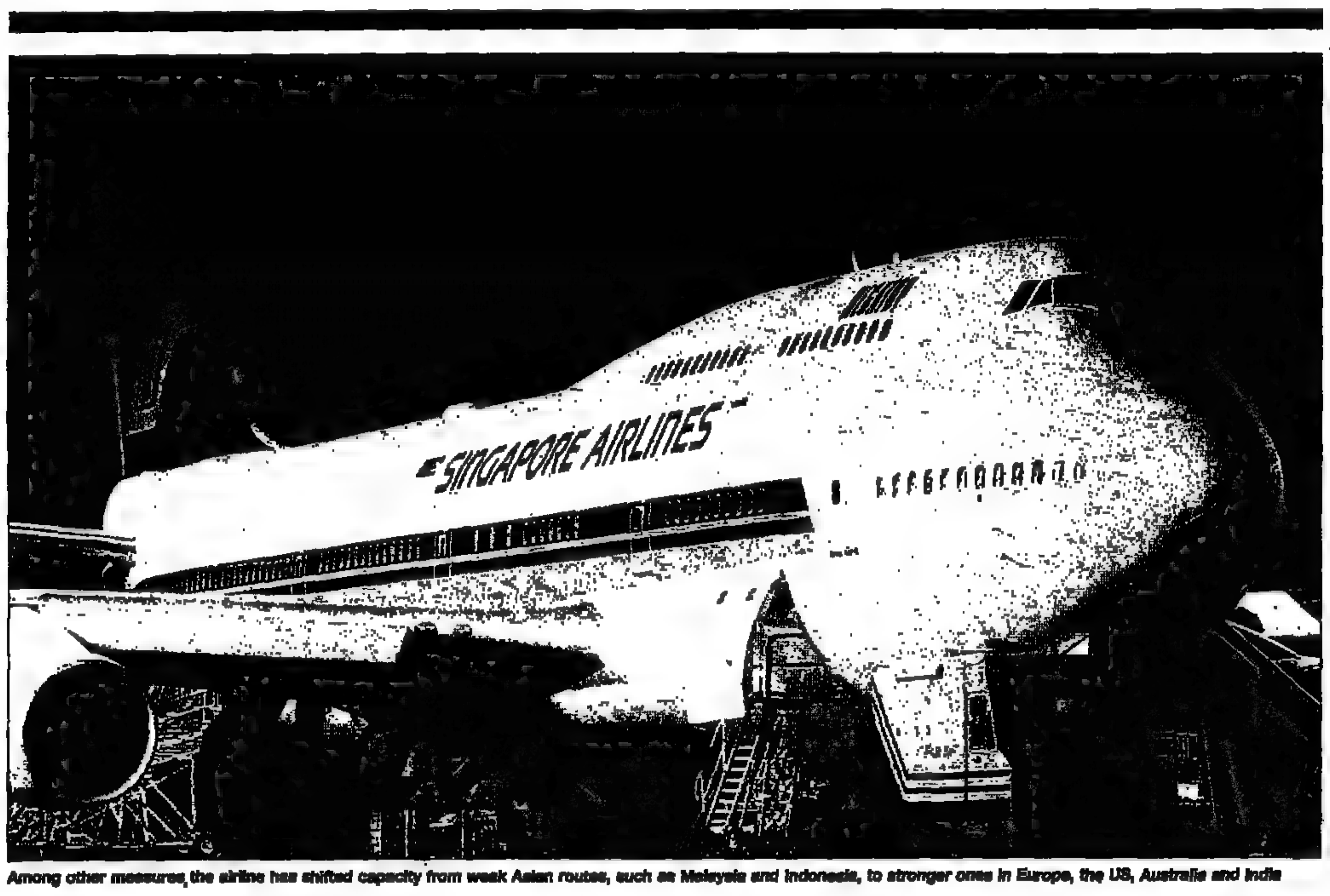
● O.tel.o, the German telecommunications company, yesterday announced price *cuts of up to 37 per cent* and the introduction of a simpler pricing system in an effort to boost its share of the market for fixed-line telephone calls, *writes Tobias Buck in Bonn.*

The company, a joint venture between RWE and Veba, the energy and industrial groups, has been lagging behind competitors, particularly in the call-by-call sector, where customers can choose different operators for each call by dialling a five-digit number.

O.tel.o's problems forced the resignation of Ulf Bohla, *its chairman, early last* month.

Under the new pricing system, the company's call-by-call business will only have *two different rates* – 44 pfennigs during weekday business hours and 15 pfennigs on weekends and weekday evenings.

O.tel.o's latest move comes after Viag Interkom, its Munich-based competitor, *announced price cuts for* its fixed line business last week.



Among other measures the airline has shifted capacity from weak Asian routes, such as Malaysia and Indonesia, to stronger ones in Europe, the US, Australia and India

Singapore Airlines finds strength in adversity

Its relatively healthy condition is helping the Asian carrier to build *a competitive edge over its rivals, writes* **Sheila McNulty**

When Singapore Airlines agreed this month to buy a 5-10 per cent stake in Taiwan's *China Airlines, the national* carrier was doing what it has done throughout the east-Asian financial crisis: widening the gap between itself and regional competitors.

The agreement was SIA's third alliance in the year since the crisis began, following link-ups with Lufthansa in Europe and Air New Zealand and Ansett in *the south-west Pacific. SIA* also has expressed interest in acquiring a stake in Thailand's national carrier.

"Relative to its regional peers, it is actually in a strong position," says May Wong, who analyses SIA for *SG Securities in Singapore.* "It has cash of more than S$1bn (US$566m) and, you can see it is building its competitive edge."

Other regional carriers are too busy trying to cope with the sharp drop in inter-Asian travel. Cathay Pacific of *Hong Kong announced* a HK$175m (US$22.6m) loss for the first half of the year – its first plunge into the red in more than two decades.

Thailand was forced to approve a plan to sell 20 per cent of the government's stake in *Thai Airways. MAS,* owner of Malaysia's national airline, is restructuring. Philippine Airlines has been hit by a strike by its largest *union. And there have been* reports that state-owned Garuda Indonesia may return half its fleet to leasing companies, sell assets and terminate contracts with Suharto family businesses to avoid being grounded.

SIA certainly has not gone unscathed. Its overall load factor dropped 3.6 percentage points to 68.1 per cent in June, over the year-earlier period, *marking the ninth* consecutive month it has reported a decline in operating efficiency. And the carrier *reported virtually flat* earnings of S$1.04bn in the year to March 1998, compared with S$1.03bn in the year-earlier period.

SIA employees recently agreed to join top management in forgoing their annual pay increase to help the airline. SIA also recently concluded an agreement to sell and lease back a Boeing 747-400 aircraft.

The airline *has done much* to help itself as earnings drop in line with passenger numbers. It has shifted capacity from weak Asian routes, such as Malaysia and Indonesia, to stronger ones in Europe, the US, Australia and India. Analysts say the latest link with China Airlines provides SIA with a key midpoint for trans-Pacific routes.

Cheong Choong Kong, SIA deputy chairman and chief executive, says SIA will also explore joint ventures in *air*line-related businesses with China Airlines.

SIA Engineering Company, a wholly owned subsidiary of SIA, has already launched a big commercial jet engine overhaul joint venture for Asia with US-based Pratt & Whitney.

The same company is forming a joint venture with the US-based Hamilton Standard to capture a larger share of the region's repair and overhaul market for engine components.

Analysts commend the attempts to expand *on* related businesses. They also like some of the promotional ploys staged in recent months. SIA screened full-length matches of the World Cup finals and it plans to extend its frequent-*flyer programme to all clas*ses early next year.

Its inflight catering will also feature "signature dishes" by top international chefs before the end of the year.

Carlos Chua, *commercial* director at the Association of Asia Pacific Airlines, a trade association based in Manila, says these little extras are critical: "They actually matter a lot, especially when you are vying for the last passenger."

"Travellers today demand a total high-quality travel experience, from a comfortable seat to the best inflight entertainment to an excellent meal, no matter where they sit in the aircraft," says Michael Tan, SIA executive vice-president.

The regional contraction of passenger numbers will still take its toll however. Analysts are reducing earnings projections, which now range from S$720m to S$1.2bn for the year to March 1999. But they still do *not believe there is any dan*ger SIA will slip, like some of its rivals, into the red.

NEWS DIGEST

AEROSPACE

Northrop to cut a further 2,100 jobs

Northrop Grumman, recently rocked by the cancellation of its planned merger with Lockheed Martin, is to cut a further 2,100 jobs and reduce factory and office space by 22 per cent in an attempt to reduce costs. The Los Angeles-based aerospace group will take a $60m charge this year to cover the costs of the streamlining, intended to save *about $300m annually from 2001* when the cuts are expected to be completed.

Reflecting the impact of the Asian crisis on US commercial aircraft sales, the company, which supplies fuselages and other large components to Boeing, said its target of raising revenues to $12bn a year would be delayed by a year until 2003. Although Northrop is still widely seen as a candidate for merger or break-up, the restructuring is designed to enable it to compete independently in markets dominated by Lockheed, Boeing and Raytheon. "These actions are necessary to ensure that we meet the affordability requirements of our customers while continuing to add value for our shareholders," Kent Kresa, chairman, said.

The company announced plans earlier this year to shed about 8,400 workers by the end of the decade, more than half going as the B-2 Stealth bomber wound down. Other restructuring measures announced yesterday included the consolidation of operations *into three* distinct segments: integrated systems and aerostructures, electronics and information technology. **Christopher Parkes, Los Angeles**

CHEMICALS

Nova set to sell Dynegy stake

Nova, the Canadian chemicals producer, said yesterday it would seek a buyer for its 26 per cent interest in Dynegy, the US energy services company, *as part of its* strategy to focus on its core commodity chemicals business. Nova's stake in Dynegy was worth US$460m, based on Friday's closing share price.

Chevron, the US oil producer, and British Gas each own 26 per cent of Dynegy, and have certain preferential rights to acquire Nova shares. Nova has *engaged Merrill* Lynch to advise on the sale. Dynegy, which had 1997 revenue of more than $13bn, markets and trades natural gas and power, generates electricity and provides energy services in the US and the UK. Its commodity chemicals business was spun off as an independent *company in July after* the merger between Nova and TransCanada Pipelines.

Nova said investors had given little value to its interest in Dynegy and shareholders would be better served by redeploying sale proceeds. The company said it would review all possible business combinations, but officials declined to be more specific. Some observers have speculated that Nova may also sell its 27 per cent stake in Methanex, the world's largest methanol producer. Nova recently acquired eight styrenics plants from Huntsman, the US chemicals group, for US$920m. ***Scott Morrison, Toronto***

ELECTRONICS

AMP in court action

AMP, the Pennsylvania-based manufacturer of electrical and electronic connectors which is defending a $9.8bn bid from AlliedSignal, yesterday went to court in an effort to prevent the bidder from placing its own representatives on the AMP board. A suit filed by AMP in the US District Court accused AlliedSignal of filing a "false and misleading" document with the Securities & Exchange Commission. It claimed AlliedSignal's initiative to place its own representatives on AMP's board would "prevent the current members of the AMP board from fulfilling their fiduciary duties to AMP under Pennsylvania law". AlliedSignal has been looking to increase the number of board seats at AMP, and fill those seats with its own representatives, in an effort gain control of its target board and overturn AMP's "poison pill" anti-takeover defences.
Nikki Tait, Chicago

MEDICAL TECHNOLOGY

Sulzer Medica still in talks

Sulzer Medica, the Switzerland-based medical technology *company, said yesterday it was still in talks on the sale of* its pacemaker division. Andre Buchel, chief executive, said in spite of increasing competition in the US market, he was optimistic of a deal before the end of the year.

He was speaking after the company presented its first-*half results, which showed a 4 per cent rise to SFr66m* ($43.8m) in net profits, on net sales of SFr808m up 15 per cent. Adjusted for currencies and acquisitions, sales rose 5 per cent.

First-half operating profit after exceptional items and goodwill amortisation fell from *SFr95m to SFr89m.* For the second quarter, net income was steady at SFr32m.
Agencies, Zurich

FOOD RETAILING

Ahold plans $2bn share issue

Ahold, the Dutch foods retailer, said yesterday it would issue about $2bn worth of common shares next month to finance its purchase of Giant Food, the US supermarket group. A banking *syndicate* led by Goldman Sachs and ABN Amro Rothschild will manage the sale, during the two weeks from September 10. Terms of the subscription *issue*, which was widely expected to help finance the $2.8bn acquisition, will be published on September 8. Ahold, which has received acceptances *for* more than 80 per cent of Giant's equity, said it may raise part of the payment via an issue of convertible bonds.

If completed next month as planned, the takeover will make Ahold the fourth largest food retailer in the US.
Jeremy Gray, Amsterdam

Squeeze on talent edging KPMG consulting arm into IPO

By Jim Kelly

The revelation that KPMG Peat Marwick, the US professional services firm, *may take a sizeable* chunk of its management consultancy business public has prompted the inevitable question: how much, given its $1.5bn annual revenues, is the sale worth?

The answer could help shape the professional services sector – and not just in the US. KPMG is the first of the Big Five accountancy-based professional service firms to consider a public offering: success could tempt others to the market.

"Price premiums in this sector are at an all-time high," said one *senior executive of KPMG, a firm* with a relatively weak US position among the Big Five. "We need to make an acquisition and it is bound to be US-based. We would have to raise the capital *somewhere.*"

Analysts say Steve Butler, CEO of the firm, has chosen the perfect time to sell. Investment bankers have been taken on by *KPMG's* board to weigh the merits of an initial public offering of 30 per cent of the management consultancy business with revenues of $500m. A private sale is also possible.

"These kind of companies are very hot at *the moment. There is* a need for capital to meet a wave of consolidation ahead of the year 2000," said Mark Wolfenberger, an analyst with Credit Suisse First Boston *in New York.*

Competitors are frankly astonished. In its recent ditched merger with Ernst & Young, the leaders of KPMG are said to have insisted on assurances that the *merger would not encourage* any drift towards separate development of the "mc" business.

Several factors may have prompted a change of heart. Mr Wolfenberger points to research showing up to 200,000 unfilled positions in the IT *sector* – a big part of the "mc" sector.

US data shows a slide in the number of computer and electrical engineering graduates available. *Poor perception of the sec*tor among High School students signals no improvement.

But buying a management consultancy is fraught with danger as the assets – the skilled personnel – can just walk out of the door. The KPMG route seems safer with the owner-manager partners reaping the benefits of an IPO and the lucrative poten*tial of stock options.*

For clients, the skills shortage has met the year 2000 compliance problem at exactly the wrong time. "It's the final pluck on a guitar string which is already too taut," says Wayne Segal, a fellow CSFB analyst. *The market for* combating the millennium problem alone is estimated at between $100bn-$600bn worldwide.

*Analysts believe those provid*ers likely to benefit from the squeeze on talent will be the ones with the highest gross margins. "Vendors with the highest gross margins are generally providing the highest value-added service and are likely to attract the best talent," says Mr Segal.

Mr Wolfenberger and Mr Segal put KPMG's management consultancy business towards the top end of the gross margin league – probably in *excess of 40 per cent.* This puts it alongside companies like Whittman-Hart, Cambridge Technology Partners, International Network Services and Diamond Technology Partners. Given this peer group what could KPMG expect to raise from an IPO ?

Projecting forward revenues to $2.1bn in the coming year with an estimated profit margin of 18 per cent gives an operating profit of around $380m. That would value the business, using a multiple taken from the publicly quoted competition, at between $8bn and $10bn – with the IPO being worth around $3bn. *Using* the peer group again as a benchmark another route to the value would be roughly four times revenues – or around $8bn for the whole business and $2.5bn *for the* IPO.

These numbers are almost too good to be true. Several senior partners felt that the nature of *the partnership structure* undermines the rationale.

"If we could raise that kind of money we'd float tomorrow," said one. "But you have to go on paying the partners and the operating profit comes before they get their cut."

Mr Wolfenberger and Mr Segal acknowledge the problems of getting at the real operating profit of private partnerships. "But I would be very surprised if it is not double-digits," says Mr Segal. They also point out that the shift to a stock option *rewards system* would, in part, compensate for the loss of traditional remuneration. They also say that figures of around $2.5bn are for market valuation and that most IPOs float at a discount.

It is easy to see why KPMG's US leadership is treading carefully. But timing is everything. Management consultancy is a volatile and cyclical business. Steve Butler may well judge that now is KPMG's big chance to catch the market.

But the word inside the firm is that partners should not get over-excited: "There's no gravy train – this is not Goldman Sachs," said one.

COMPANIES & FINANCE: INTERNATIONAL

FINANCIAL SERVICES AUSTRALIAN GROUP HITS THE TARGET PROMISED AT DEMUTUALISATION

AMP warns of effects of volatile markets

By Gwen Robinson in Sydney

AMP, Australia's largest life insurance, fund management and financial services group, met market expectations yesterday with its first half-year earnings announcement since demutualising in 1997. The group, which floated on the Australian and New Zealand stock markets in mid-June, predicted full-year profits would reach prospectus forecasts of between A$774m (US$450m) and A$971m.

However George Trumbull, chief executive, warned the second half could be volatile. "Assuming there is no major downturn in the market, we are well on track to achieve the full-year forecast in the prospectus ... Volatility in the markets, however, makes forecasting very difficult," he said.

AMP said net profit before extraordinary items in the six months to June was A$603m, well above the median range of market forecasts. As foreshadowed in the prospectus, the group took an extraordinary loss of A$1.67bn on the costs of demutualisation, accounting changes and corporate restructuring, for a bottom-line loss after extraordinaries of A$1.07bn. There was no interim dividend, as predicted.

On the stock market, AMP shares fell more than 1.5 per cent to A$21.88. Analysts said the group's investment earnings and operating margins in the half-year were not as strong as expected.

AMP said total investment return on shareholder capital was A$479m for the half year, compared with A$713m for all of 1997.

Mr Trumbull said AMP's return on equity continued its "excellent trend", rising 16.3 per cent in the six months compared to 13.4 per cent in the whole of 1997.

The group's performance was helped by the strength of overseas investment markets. In the UK alone, the equity market rose 13 per cent in the first half, Mr Trumbull said. The weakening of the Australian dollar in the first half also helped increase the relative value of AMP's UK operations, reflected in an increase of A$125m in AMP's foreign currency translation reserve.

The group has expressed strong interest in other insurance or funds management acquisitions in the UK, as well as in Australia.

First-half investment income was A$479m, compared with A$713m for the full year. The group said operating margins were A$158m for the half year, compared with A$247m for the full year. Paul Batchelor, AMP chief financial officer, said the figure was in line with prospectus forecasts and would meet full-year forecasts of A$271m.

Funds under management surged 50 per cent on the full year to a record $173bn, placing AMP as Australia's biggest investment manager. The increase was largely due to UK operations, following the A$920m acquisition of Henderson, the UK fund manager, in March.

Cost savings at Henderson were 1.5 times ahead of estimates and there would be more savings across the group, Mr Trumbull said. Pearl Assurance, AMP's UK insurance operation, was "on track for an 11 per cent increase in new business" by the end of 1998.

HK group loses its A+ credit rating

By Louise Lucas in Hong Kong

Hutchison Whampoa, the Hong Kong conglomerate controlled by Li Ka-shing and one of only two corporates in the territory in possession of a sovereign credit rating, was toppled from its perch yesterday by Standard & Poor's.

The US rating agency downgraded Hutchison Whampoa from A+ to A, citing weaker prospects for a near-term recovery of earnings and heightened gearing. Sun Hung Kai Properties, now the sole A+ rated corporate, is itself on review for a potential downgrade.

The move comes as recession ensnares Hong Kong. Coupled with tight liquidity and plunging asset prices, the economic turmoil has ravaged corporate earnings and damped prospects.

Hutchison Whampoa, which will report on Thursday, is expected to see pre-provision earnings slide 6 per cent to HK$7.35bn (US$948m), according to Goldman Sachs. Analysts are forecasting a hit of HK$2bn-HK$3bn from provisions at the halfway stage.

However, the stock is still seen as one of the more robust in Hong Kong. "While liquidity is tight out there, banks would have two or three top names they would still be willing to lend to, and I think Hutchison would be one of them, albeit maybe at a slightly higher cost," said Mike Warren, conglomerates analyst at Goldman Sachs. He pointed to its high proportion of income from more stable streams.

The group is also in a stronger cash position than a number of its peers, following last year's US$2bn cash raising. Stella Shao, analyst at Standard & Poor's, added currency exposure was not a big concern as it had US dollar-denominated assets to provide hedging.

Of more concern was the recovery of earnings in the face of prolonged economic turmoil in Hong Kong and Asia; increasing exposure to the capital-intensive telecommunications sector; and a less solid financial profile, stemming from increased net leverage which now stands at about 35 per cent, compared with 15 per cent for 1994 to 1996.

Lufthansa opens the throttle and hopes for a smooth ride

German national carrier is on a high, but any rise in fuel prices or economic downturn could clip its wings, writes **Graham Bowley**

Jürgen Weber: Star Alliance link-up gave Lufthansa extra muscle

The excited crowds of east German holiday-makers at Leipzig's shiny new airport this summer would have been unbelievable 10 years ago, before the Berlin Wall fell. Today they are a common feature across formerly communist east Germany.

Germans from west and east are travelling more by air these days, and they are flying farther. This pleases no one more than Jürgen Weber, chairman of Lufthansa, Germany's national carrier.

The surge in air travel is one of the main reasons for the renaissance at *Kranich* or "Crane" – as the Germans dub Lufthansa because of its wading-bird symbol. It carried 44m passengers last year, a third more than five years ago. This has translated into profit: when Lufthansa publishes its latest figures today they are expected to show it well on the way to pre-tax earnings of DM2bn ($1.1bn) this year, against DM1.6bn last year.

"Lufthansa is right now one of the world's most profitable airlines," says Uwe Weinreich at BHF Bank in Frankfurt.

The carrier has been here before. In 1995, after recovering from huge losses in the early 1990s, its profits were at a record high and its prospects looked bright. But within a year it had run into difficulties caused in part by soaring fuel prices and a price war.

This could happen again. Low fuel prices are unlikely to continue. There are also rumblings of a world economic downturn, which would hit air traffic and could trigger a new price war. Already, airlines' share prices have dipped.

And then there is Asia. The crisis has slowed passenger growth in the region, but so far this has barely touched Lufthansa, which has less exposure to Asia than other airlines. Where it is more vulnerable is in cargo: it earns around a third of its revenues flying German machine tools and white goods to countries such as Japan and Malaysia.

However, the airline appears in good shape to survive any eventuality. Crucially, it is generating healthy profits on intercontinental flights. For several years, European business was its best performer, while intercontinental and domestic flights struggled. Now, only its domestic flights are loss-making.

It has sorted out its hub strategy, feeding passengers into Frankfurt, where they transfer to long-haul flights with Lufthansa. It recently closed its Berlin-to-London route, partly because it was delivering passengers to the rival British Airways.

But the most important innovation is the Star Alliance, Lufthansa's cosy link-up with a handful of other airlines which allows them to funnel passengers to each others' flights and cut costs by sharing services and pooling buying power.

The alliance, signed last year, was a bold stroke by Mr Weber, giving Lufthansa extra muscle in a fierce global market. One measure of its early success is the gain in market share on North Atlantic flights, where Lufthansa passenger numbers are growing rapidly.

Lufthansa is also a leaner organisation than three years ago. In 1996, Mr Weber launched a programme to lower costs, per passenger per kilometre, to 15 pfennigs, a goal which the airline insists it is close to achieving. "Mr Weber is a very cost-conscious guy," said Jürgen Pieper at Deutsche Bank in Frankfurt.

There have been pay and hire freezes and innovations such as electronic ticketing. An important step was a two-year pay deal, which runs until next spring, to keep wages down in return for job security.

But Carl Michel, chief executive of Deutsche BA, British Airways' German airline, contends Lufthansa is overstating the inroads it has made on costs. "Everything is pumping well on the revenue side but they have let costs drift. It will catch up with them," he said.

Germany's high costs are one reason Lufthansa has for so long been loss-making in its domestic market. It has also faced formidable competition from new rivals – most notably Deutsche BA, which has captured around 14 per cent market share.

To improve its competitive position, Lufthansa has given up some short-haul flights to regional German airlines, and it is now even considering launching a low-cost airline of its own.

Its final link to the state was cut last October when the government's remaining 38 per cent stake was sold in a public offering which raised around DM4.7bn.

Already there are some shifts in company behaviour: the airline estimates around 30,000 workers, or more than half its staff, now own Lufthansa stocks. This, and a one-off DM100m profit-sharing bonus offered this year, will discourage workers from making excessive pay demands.

Lufthansa is also using the freedom offered by privatisation to revalue some of its hidden assets – its stakes in Amadeus, the ticketing system, in its own catering business and in DHL, the express mail company, are being lined up for flotation.

Such steps have put extra wind under the wings of Germany's "Crane". Mr Weber, with an eye on the economic cycle and on Asia, will be hoping the ride is smooth.

Camerlin quizzed over Brierley move

By Terry Hall in Wellington

Sir Roger Douglas: 'duty to protect interests of all shareholders' AP

Sir Roger Douglas, chairman of Brierley Investments, yesterday demanded that Camerlin, the New Zealand group's main shareholder, state its agenda for seeking to remove him amid speculation that it was planning a takeover bid.

Camerlin, a group of Malaysian, Indonesian and Singaporean investors, had announced it was calling a shareholders' meeting of all Brierley Investments' 108,000 shareholders to vote for Sir Roger's removal. Camerlin has a 20 per cent stake which gives it the right to demand a meeting under New Zealand company law.

Sir Roger said he had been nominated as executive chairman by Camerlin in April in the shake-up that saw the sacking of Bob Matthew as chairman and Paul Collins as chief executive.

He questioned why Camerlin required a meeting of all Brierley's shareholders to be called now, before the scheduled directors' meeting next Monday which is to make a final decision on the company's strategic direction, review financial policies and consider the appointment of a new chief executive.

Noting the takeover speculation, he said: "My duty is to see interests of all shareholders are protected and not just those of a 20 per cent shareholder."

Camerlin's demand for his removal follows last week's collapse of negotiations to sell Thistle, the UK hotel group in which Brierley has a 46 per cent shareholding. Brierley had been hoping the sale would raise more than NZ$2bn (US$983m).

Sir Roger said that the collapse of negotiations was a disappointment but "the simple fact was that there was not an offer that the directors of Thistle or Brierley could accept".

Apart from speculation about a planned takeover, there have also been suggestions that Camerlin is disturbed by reported plans that directors intend to slash the dividend to 2-3 cents a share. The dividend, which is currently 9 cents, gives Camerlin a cash injection of NZ$54m, helping its balance sheet which has been under pressure because of the Asian crisis.

Sir Roger, a former New Zealand finance minister, has been orchestrating a shake-up in Brierley since his surprise appointment to head the company.

Under his leadership the group has made asset sales of about NZ$600m and announced plans to cut its investments from the present 60 to 15, quit the US and Asia, and concentrate on Australia, New Zealand and the UK.

The collapse of the Thistle sale has further undermined the Brierley share price which traded at 71 cents yesterday, down from a 12-month high of $1.45.

Pioneer unveils plan to double sales

By Alexandra Harney in Tokyo

Pioneer, the troubled Japanese electronics group, yesterday unveiled a plan to remake its corporate image and double its sales by 2005 by developing digital televisions, video disc players and car navigation systems.

The electronics group, which specialises in car stereos and laser-disc technology, aims to raise sales to Y1,200bn ($8.3bn) and after-tax earnings to Y55bn by 2005. It also hopes to raise its return on equity from 1.9 per cent last year to 10 per cent in the same period.

Higher profitability would be achieved by developing new technologies, said Kaneo Ito, Pioneer president. The group aims to generate 40 per cent of sales from new products, including plasma display panels (PDPs) for digital televisions, digital video disc (DVD) video players, and digital satellite broadcasting equipment.

He estimated that Y270bn of turnover would come from DVD products, Y120bn from PDPs, and Y120bn from car navigation systems and boxes for satellite television reception.

In order to meet the return-on-equity target, Mr Ito proposed a 5 per cent reduction in administrative expenses and cost reductions at production plants in south-east Asia. He also said the group would spend Y15bn to improve production facilities for PDPs.

Although sales have improved in spite of weak Japanese consumer demand, the heavy costs of restructuring have hurt profits recently. In the year to end-March, the company reported after-tax earnings of Y2.5bn, after restructuring charges led to losses of nearly Y10bn the year before. In the first quarter of this year, group profits plunged 82.7 per cent to Y177m, despite a 7.1 per cent growth in sales to Y139bn.

However, the company's long-term prospects were strong, analysts said. Its position in the global DVD and car navigation system markets would contribute to improved profitability in the next three to five years, said Masashi Kubota, analyst at ING Barings in Tokyo. Pioneer has 50 per cent of the DVD market in the US, and 20 per cent of the Japanese market, according to ING Barings.

"I think recent performance is just a short-term fluctuation ... Pioneer is suffering from the high start-up costs of these businesses and it will reduce losses in the next few years," said Mr Kubota. He estimated that group profits would grow to Y45bn, on turnover of Y900bn, by 2005, as tough conditions in the industry narrowed the group's profit margins.

With growing price competition in the consumer electronics market, Pioneer would need to lower its cost structure to compete with rivals Fujitsu, Sony and Matsushita, Mr Kubota said.

● Pioneer and Canal Plus, the French pay-television company, have formed an alliance to manufacture and promote a new generation of digital television set-top boxes compatible with European and US standards, writes John Gapper.

The link-up, which also includes C-Cube Microsystems and DiviCom, which makes components for cable television systems, will produce a complete system capable of receiving digital programmes and interactive services.

The system is intended to comply with standards set by the Open Cable group in the US and the Digital Video Broadcasting Project, which includes about 200 broadcasters and official organisations involved in television.

OIL SERVICES

Aker Maritime to unveil UK acquisition plan

Aker Maritime, the oil services unit of the Norwegian holding company Aker RGI, will announce today plans to buy Genesis Engineering Consultants of the UK. The deal, worth "tens of millions of krone" according to Aker, is designed to boost profit margins in its UK arm.

Genesis, which employs 200 people, provides conceptual solutions for developing oil and gas fields and extending the production life of maturing fields. It accounts for about 40–50 per cent of all front-end study work in the North Sea, according to Chris Harding, a Genesis partner. **Valeria Sköld, Oslo**

GOLDMINING

Aneka Tambang surges

Aneka Tambang, the partially privatised Indonesian gold and copper mine, reported a 10-fold increase in interim net profits, helped by the depreciation of the rupiah and high margins on deposits of cash in banks.

The company, scheduled for a further divestment by the government this year, said net profits for the first six months of this year reached Rp251.8bn ($22m), up from Rp23.9bn in the first half of 1997. Net sales tripled, from Rp169.6bn to Rp519.8bn, despite the slump in gold and copper prices. Interest expenses rose because of Indonesia's surging interest rates, but the company had sufficient cash to earn more on its deposits than it spent, leaving a net income of Rp29.9bn.

Aneka's profits are exceptional in Indonesia's crisis-ridden industry, with exporters benefiting from the collapse in the rupiah. In dollar terms, sales fell but profits rose sharply because of a limited increase in the cost of goods sold.

Operating expenses more than doubled, from Rp16.9bn to Rp42.3bn, but only amounted to just over 10 per cent of gross profits, which totalled Rp411.2bn. A foreign-exchange loss of Rp34.6bn on outstanding loans made little impact on this figure. **Sander Thoenes, Jakarta**

MEDIA

Muscat quits Fairfax

John Fairfax Holdings, the Australian media company, yesterday said Robert Muscat had resigned as chief executive to join PMP Communications, the magazine publisher. Mr Muscat's departure follows recent boardroom upheaval at Fairfax. In May, Brian Powers was elected chairman, replacing Rodney Price, who resigned.

Mr Muscat said his association with Ken Cowley, PMP chairman, was a factor in his decision to leave Fairfax. "Ken and I worked successfully together for over two decades at News Ltd, and his offer to me on behalf of the PMP board was especially exciting and enticing," he said. Mr Muscat joined Fairfax as chief executive in August 1996 from his position of chief operating officer of News Ltd, the Australian unit of Rupert Murdoch's News Corp.

Fairfax said it would hire an executive search company to replace Mr Muscat. In the meantime a three-person management committee will assume the duties of the chief executive. **AP-DJ, Sydney**

ALUMINIUM

Comalco climbs to A$123.8m

Comalco, the Australian aluminium producer 67 per cent owned by Rio Tinto Ltd, yesterday posted a sharp rise in first-half net profit, from A$69.6m a year ago to A$123.8m (US$72m). The company said earnings in the second half could exceed the first-half result if currencies and prices remained stable.

Comalco said it would appoint John Morschel, a director, as chairman to replace Leigh Clifford, who is resigning to concentrate on his role as chief executive of Rio Tinto's energy division.

Comalco said aluminium demand in western Europe and the US remained strong while market conditions in Asia were still difficult. Despite the problems in Asia, sales in the region were maintained at levels similar to last year's.

Asia accounts for about 25 per cent of world consumption, the company said. **Reuters, Sydney**

PHARMACEUTICALS US GROUP GIVEN EXCLUSIVE LICENSING DEAL FOR A PLANT-BASED APPETITE SUPPRESSANT

Phytopharm in 'botanicals' tie with Pfizer

By Jonathan Guthrie

Phytopharm, a small British company which develops drugs from plant extracts, has licensed a plant-based appetite suppressing compound to Pfizer, the big US pharmaceuticals group.

The collaboration represents an endorsement both for Phytopharm and for "botanicals" – plant compounds often selected for drugs research because they are used by folk healers.

Richard Dixey, chief executive of Phytopharm, said: "I think this is a milestone. If you think of a partner, this is no diddlysquat pharmaceutical company, this is Pfizer – it will make people sit up and think Phytopharm is talking to multinationals."

Shares in Phytopharm, which have risen sharply in recent weeks on speculation about a deal, closed up 7 per cent at 125p yesterday, after reaching 138p. They have jumped by 50 per cent since the beginning of August.

Pfizer has acquired exclusive rights to develop and market a compound based on a South African plant, called P57, which is intended to reduce the appetite. In return it will pay up to $32m to Phytopharm in licensing fees, and in "milestones" – payments triggered by progress in research. Pfizer will contribute $7m to an initial development programme conducted by Phytopharm.

Regulators in the lucrative US drugs markets have been wary of licensing botanicals for tests on humans. There have been concerns that complex compounds which have not been fully described chemically could vary in composition, with dangerous consequences.

Mr Dixey said that there had been a change in attitudes at the US Food and Drugs Administration. This followed the granting last year of approval for human tests of Phytopharm's eczema treatment Zemaphyte. He said: "The regulators are now happier [with botanicals] because we have demonstrated we can exercise tight control of production standards."

The US would be the key market for the new drug. Between 35m and 65m Americans are thought to be obese. The US market for prescription drugs for the condition is estimated at more than $3bn a year. The costs of treating obesity related disorders are believed to be more than $75bn annually.

Richard Campbell, a pharmaceuticals analyst at Paribas, the broker, said the royalty and milestone money was "peanuts" for Pfizer, one of the biggest drug companies, but would be useful for Phytopharm, which is loss-making and has only about £4m cash reserves.

Mr Campbell said the most important element of the deal was the percentage of sales that would be paid to Phytopharm in royalties if P57 came to market. This is thought to be 10 per cent, much higher than the normal 5 per cent.

Miner whose shares also excavate the depths

Since listing in London a year ago, Billiton has been the worst performing stock in the FTSE 100, writes **Kenneth Gooding**

Billiton, the metals and mining group which had such high hopes when it listed in London and raised nearly £1bn just over a year ago, has the unwelcome distinction of being the worst performing share in the FTSE 100 Index in the past 12 months.

When the group was spun off by Gencor of South Africa and listed in July 1997 at 220p a share, it had a market value of £4.6bn and was the 48th biggest company on the exchange. Now its price has sunk to 122p at yesterday's close, down 3½p, and it has slipped towards the bottom of the FTSE 100 rankings, standing 91st at last night's close.

It is not just the slump in metals prices, caused by Asia's economic woes, that has weighed on Billiton's shares. South African institutional investors that owned about 78 per cent of the group after the listing have since cut their combined interest to 60 per cent.

In South Africa, Brian Gilbertson, Billiton's chairman, and Mick Davis, finance director, are regarded as brilliant, entrepreneurial managers who have revolutionised Gencor. The Billiton base metals operations and Gencor's gold business have been spun off and positioned to grow internationally.

Why then have South Africans been selling so heavily? The main reason is that the South African government recently permitted its domestic institutions to buy foreign shares. Up to 15 per cent of an institution's portfolio can now be in non-South African companies. Some 74 per cent of Billiton's shares were held by only five South African institutions at the listing. Therefore it is not surprising that they decided to sell some of this liquid stock and swap into other UK companies.

To pile on the agony, Sanlam, the South African financial group, decided to reduce its stake in Billiton from 15.7 to 10.9 per cent as part of its plan to demutualise. Dresdner Kleinwort Benson bought the Sanlam stake for about 158p a share but there was speculation the onward sale of the shares had been mishandled and DrKB was left with 40m-50m of the 101m shares.

London institutions, meanwhile, are far from enthusiastic about Billiton and regard Mr Gilbertson as an unknown quantity. "We never see him", complained a broker. Mr Davis is perceived as rather abrasive and even a little arrogant at times.

Those institutions who want a core mining stock in their portfolio mainly prefer Rio Tinto, the world's biggest mining group and one with a management team well liked in the City.

In the UK, there is also a feeling of disappointment about Billiton's failure so far to put the cash it raised to good use. Many investors and analysts left the roadshows promoting the listing with the idea that a substantial acquisition was under consideration. None has materialised. Instead the group announced it wants to buy back up to 10 per cent of its shares.

"We know Billiton has looked at lots of potential deals," said one broker, "but they know the UK investment community will look very closely at any mega-deal and the management is probably a little nervous."

Mr Gilbertson rejects this. Also, he says: "The worst thing to do is to spend money just because it is there."

Billiton has done everything it promised to do at the time of the listing, he insists. That included approving a $585m expansion of the Worsley alumina refinery in Australia, in which Billiton has a 30 per cent interest, and giving the go-ahead for the $1.2bn Mozal smelter project in Mozambique, in which Billiton has a 47 per cent share.

Billiton also announced in July it would buy the rest of the Ingwe coal company in South Africa for R2.97bn ($450m). "That was not mentioned [at the listing] and is not a small deal," says Mr Gilbertson.

"The market knows we are interested and have the money to do deals. Our project teams have looked at everything that has come along."

He acknowledges some mistakes in early communications with the City. As for his perceived role as an "absent chairman," he insists it was made clear at the time of the listing there would be a transitional period when he would split his time between Billiton in London and Gencor in South Africa.

Three of Billiton's five executive directors are in London full time.

Early this year, Gencor merged its gold operations with those of Gold Fields of South Africa to form the world's second biggest gold producer.

Mr Gilbertson became interim chairman of the new Gold Fields and this added to the perception that he was spending most of his time in Johannesburg.

However, he points out: "I won't be at Gold Fields at the end of the year."

Russell Skirrow, analyst at Merrill Lynch, who rates Billiton a "long-term buy" suggests that the company has attempted to lift its share price by giving two relatively upbeat profit forecasts last month.

It also intends to announce its full-year results on September 7, timing the release an hour or so before the next meeting of the FTSE 100 Index committee.

"A good set of figures should help Billiton keep its place in the index," Mr Skirrow says. "If it falls out it might never get back."

Mayflower acquires 40% of Metrotrans

By John Griffiths

Mayflower Corporation, the expansionist engineering group that is locked in a takeover battle with Henlys for the UK truck and bus group Dennis, is acquiring 40 per cent of Metrotrans Corporation, the US bus maker.

John Simpson, Mayflower chief executive, said the move confounded claims by Henlys that Mayflower had no coherent strategy for developing Dennis' bus business in North America.

The deal envisages Mayflower taking majority control of Georgia-based Metrotrans within about two years. It was promptly derided by Henlys as involving Mayflower "heavily overpaying" for what Robert Wood, Henlys chief executive, described as a "Dinky Toy" company.

Mayflower is to pay $24.8m cash for the 40 per cent stake in Nasdaq-listed Metrotrans, with put and call options in respect of a further 23 per cent. In addition, Mayflower is to make available a $15m loan and technical assistance to encourage Metrotrans' growth.

Henlys compared unfavourably Metrotrans' modest 1997 £49.4m turnover and £1.7m pre-tax profits with the £364m turnover and £29.5m pre-tax of Prevost and Nova, Henlys' own bus-making operations in Canada and the US. Mr Wood argued that Henlys therefore remained a far more suitable partner than Mayflower to take Dennis into the North American market.

However, the structure of the North American bus market is complicated, making simple size-for-size comparisons misleading. Nova and Prevost concentrate on the integral – chassisless – bus and coach sector, while Metrotrans specialises in medium- and full-sized urban and 'shuttle' buses built on truck chassis.

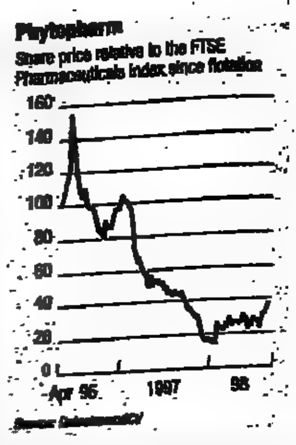
Mr Simpson claimed this made Metrotrans highly compatible with both Dennis, as a potential provider of chassis, and Mayflower's Walter Alexander bus body-building subsidiary.

Metrotrans' product range is also geared increasingly to the urban transit and shuttle bus market which Henlys identified in its offer documents for Dennis as being numerically the largest and fastest growing bus sector in North America. Mr Simpson claims Metrotrans has about 25 per cent of the sector, which is led by rival bus maker Eldorado, whose three plants produce 2,400 buses a year. Metrotrans last year built 1,168 vehicles. However, these included coaches, which Metrotrans makes under a joint venture with Irizar of Spain.

Mayflower shares slid 2¼p to 169½p.

COMMENT

Phytopharm



So soured are investors by the British Biotech debacle that barely an eyebrow was raised yesterday when one small biotechnology company actually delivered on a promise. Gaining licensing deals with big drugs companies – as Phytopharm has with Pfizer of the US – is the best way for these emergent businesses to gain credibility. British Biotech eschewed this route for far too long. Of course there is no point getting carried away with the scale of the endorsement. Pfizer's initial $7m commitment is no more than the fluff in its pocket. But it will have done due diligence before adding Phytopharm's appetite suppressant to its stable of 100 or more collaborations.

An interesting aspect of this project is that the drug comprises a cocktail of ingredients from a plant. Western regulators have been suspicious of such ill-defined mixtures. It is difficult to explain how they work and to guarantee consistent reproduction. Yet they have started to relent. The clinical trial process throws up some high fences for these "botanical" drugs to climb. But Phytopharm and its US brethren have spotted an opportunity to act as a legitimising vehicle for natural remedies.

House prices

These are sad times for headline writers and estate agents alike: the animal spirits have departed from the UK housing market. Dreadful summer weather and a traditional holiday slowdown are mitigating factors, but the underlying trend of slowing volumes and prices is clear enough. This is hardly surprising, given the rising trend in interest rates and the prospect of a less buoyant economy. Still, it is a far cry from the boom-bust rhythms on which many home owners were brought up.

Now, the outlook is much more prosaic. According to Halifax, prices are likely to rise by only 5 per cent this year and 4 per cent next – hardly investment nirvana, but at least not the trauma of negative equity. The biggest risk is if the economy slips into recession. More likely is that lower mortgage rates and rising incomes will underpin prices, although those parts of London most exposed to foreign buying and bankers' bonuses may be more at risk. Boring? Yes. Healthy? Yes too.

Job shake-up at ABN Amro

By Clay Harris in London and Tim Burt in Stockholm

ABN Amro will today announce a new head for its global equity directorate. The new job for Nick Bannister, who joined the Dutch bank in 1993 from Union Bank of Switzerland, coincides with moves by ABN Amro to exert more influence over Alfred Berg, its Scandinavian investment banking subsidiary.

Alfred Berg, bought from Volvo in 1995, has the highest prestige of any investment bank in the Nordic region. But it has been hit in recent weeks by senior defections in Sweden. Additional departures are expected to be announced today.

Mr Bannister replaces Carl-Diedric Hamilton, former chief executive at Alfred Berg, as head of the global equity operations, including the former Hoare Govett in London.

After a "re-branding" exercise earlier this year, only a handful of ABN Amro investment banking subsidiaries were allowed to retain their names; Alfred Berg was one, but those days now appear numbered.

When ABN Amro reported interim results last week, Jan Kalff, chairman, said although there was "no urgent need" to drop the Alfred Berg name, "eventually we will do that."

Three senior executives left Alfred Berg earlier this month to join Enskilda Securities, the investment banking arm of Skandinaviska Enskilda Banken. They are understood to have approached Enskilda, rather than being headhunted.

"They saw that ABN had integrated London, Moscow and New York and clearly feared a loss of sovereignty for Alfred Berg was imminent," according to an industry analyst in Stockholm.

Per-Anders Ovin, former global head of equities and chief executive of Alfred Berg (Sweden), is to become global head of equities at Enskilda. He was joined by Björn Jansson, Alfred Berg's global head of research for the Nordic area, and Henric Falkenberg, head of equities in Stockholm.

Analysts at Alfred Berg ranked top in the each of the four main Nordic stock markets, according to fund managers polled for the 1998 Extel survey of investment analysts.

Allied Domecq trading statement disappoints

By David Blackwell

Allied Domecq, the spirits and pubs group, yesterday said trading for its first 11 months had been "broadly as expected".

Analysts described the trading statement as "dull", and said a share price fall of 6p to 535p reflected the absence of any corporate news. "The market will not be happy until the board comes up with some sort of deal," said one.

The group, which reports results for the full year to August 31 on October 27, said it wanted to follow best practice ahead of the introduction of new accounting standards next year.

As to corporate activity, it stood by the views of Sir Christopher Hogg, chairman, in April at the time of the interim results. Then he said the group was exploring opportunities to join forces with other drinks groups with "persistence and objectivity".

The board also remained open-minded and pragmatic about a possible demerger.

Forecasts for the full year range from £581m to £630m ($1.04bn) before exceptionals. Yesterday's statement revealed charges totalling £151m, including a £45m deficit following a revaluation of the pub estate, which has a value of £1.8bn.

In addition the group said the full-year impact of sterling's strength on the translation of overseas profits would be £20m.

The spirits and wine division, which lifted underlying first-half trading profits by 10 per cent, was "on track for modest growth in the second-half, except in Asia".

In the retail division, the group said US franchise operations were showing strong growth.

Freepages sales jump in quarter

By Paul Taylor

Freepages, the telephone information company, yesterday reported a sharp increase in revenues for the quarter to June 30 and said its operational costs were expected to grow at a significantly lower rate than sales.

A pre-tax loss of £5.99m ($9.88m) in the third quarter compared with a loss of £2.38m last time and brings the loss for the nine months to £19.9m (£8.29m) on sales of £15.5m (£10.5m).

The group, which operates both internet and telephone information services under the Scoot brand, said revenues for the quarter were £4.92m, up 22 per cent over both the second quarter and the third quarter of 1997 once one-off items were excluded.

"Our UK business developed positive results in terms of revenues and usage while operating expenditures remained stable," said Robert Bonnier, chief executive.

The company, which plans to switch from Aim to the main market shortly, said the operating loss, excluding the group's share of its joint ventures and associated companies' operating loss, was £4.19m (£2.23m).

The net cash outflow from operating activities and investments was £3.5m during the quarter and £14.8m for the nine months. At the end of June the group had net cash of £12.6m.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
BSR Φ	6 mths to Apr 30 ‡	7.17	(6.57)	0.984	(0.922)	4.3	(4.1)	-	-	-	-	-
Freepages Φ	9 mths to June 30	15.5	(10.5)	19.9L	(8.29L)	4.09L†	(1.94L)	-	-	-	-	-
Gowrings	6 mths to June 30★	43.3	(38.6)	0.401	(0.318)	3	(2.2)	1.25	[illegible]	1.1	-	3.5
Jumbo Intl Φ	6 mths to June 30	0.817	(0.163)	0.002	(0.18L)	0.015†	(3.09L)	-	-	-	-	-
Lavendon	6 mths to June 30	14.7	(9.16)	2.36	(1.54)	8.91†	(5.54)	1.5	Nov 2	1.3	-	3.9
NSB Retail Φ	6 mths to June 30	3.41	(1.55)	0.748	(0.454)	4.8†	(4)	0.625	Sept 28	-	-	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Govett Emerging	Yr to June 30	85.75	(139.63)	0.274	(0.288)	0.77	(0.75)	0.5	Oct 30	0.38	0.5	0.38

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ΦAim stock. ‡Pro forma. ★Comparatives restated. †On increased capital.

EURO PRICES

EQUITIES

Russian turmoil continues unease

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

European stock markets remained fairly uneasy in the face of turmoil in Russia and concern that Latin America might become the latest region to indulge in devaluation fever.

There were rebounds in those markets which had been worst affected on Friday, notably Frankfurt, but the performance of the continent's bourses was distinctly mixed.

For once, the three main pan-European indices did not all move in the same direction. The FTSE Eurotop 100 index gained 9.12 to 2,690.99 and the broader Eurotop 300 was 2.78 higher at 1,166.29.

But the FTSE Ebloc 100 index, which concentrates on stocks in the core European single currency countries, fell 1.12 to 989.33.

Some analysts think that the fall in European bourses since mid-July has been overdone, given the strength of the continent's economies and low inflation and interest rates.

"We continue to believe European equities offer exceptionally good long-term value against bonds, with the 10-year Ecu yield now below 4.6 per cent," says Mark Howdle, European strategist at Salomon Smith Barney. "Equities' recent 15-20 per cent value adjustment against bonds seems excessive and we still see the majority of markets at attractive buying levels at present."

Healthcare, in the form of the volatile Nycomed Amersham, was the best performing sector of the day, gaining 4.2 per cent.

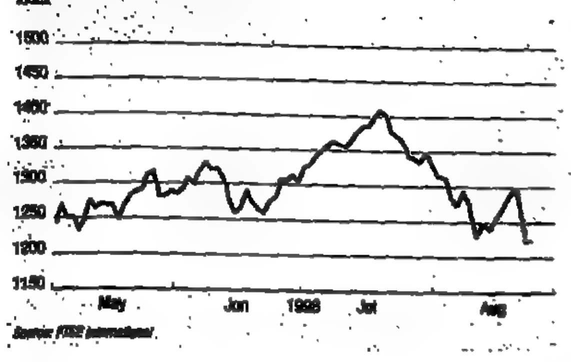
The UK-dominated breweries, pubs and restaurants sector was the second best performer – gaining 2.8 per cent – with catering group Compass rebounding Ecu 0.1 to Ecu 8.96 after recent weakness.

The gas distribution sector was 2.5 per cent higher, as Merrill Lynch recommended both BG – up Ecu 0.1 at Ecu 5.76 – and Centrica.

Electronics was the worst performing sector, with stocks being hit by deteriorating sentiment about emerging markets – Lagardère fell Ecu 2.8 to Ecu 35.54.

While the engineering sector managed a 1 per cent gain on the day, Degussa, which is being sued in the US by holocaust survivors, plunged Ecu 4.5 to Ecu 46.51.

FTSE Eurotop 300 Eurobloc



Source: FTSE International

THREE MONTH EURO FUTURES (LIFFE)

THREE MONTH ECU OPTIONS (LIFFE)

FTSE EUROTOP 100 INDEX FUTURES (LIFFE)

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX)

OTHER INDICES

FTSE Actuaries Share Indices — European series

August 24

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	p/e ratio	Total return (Ecu)
FTSE Eurotop 300	1166.29	+0.24	+2.78	2.45	21.91	1126.85
FTSE Eurotop 100	2690.99	+0.34	+9.12	2.45	32.45	981.56
FTSE Ebloc 100	989.33	-0.12	-1.12	2.80	12.97	981.63

FTSE Eurotop 300 Regions

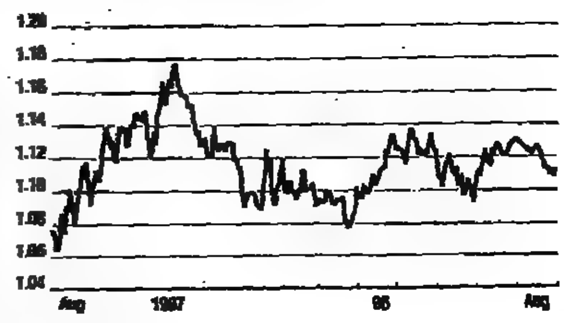
FTSE Eurotop Industry Sectors

FTSE EUROTOP 300

CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Synthetic Euro against the dollar



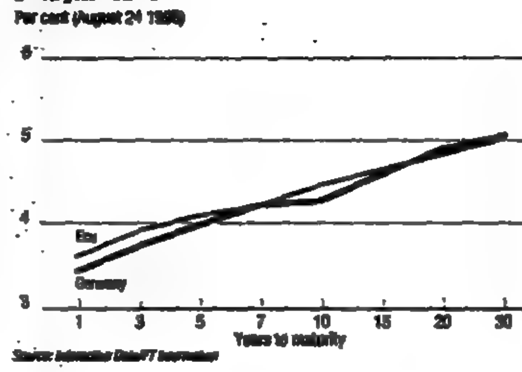
Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

BONDS

Bond yield curve

Per cent (August 24 1998)



Source: Interactive Data/FT Information

EUROZONE CORPORATE BONDS

GOVERNMENT BOND SPREADS vs ECU

EUROZONE CREDIT SPREADS vs ECU

Profit-taking sends prices lower

GOVERNMENT BONDS

By Vincent Boland in London and John Labate in New York

A bout of profit-taking sent prices lower yesterday in another day of volatile trading, although the tone was much calmer than on Friday, when bonds soared and equities tumbled.

Russia's latest political troubles provided a bleak background, and the dip was expected to be short-lived as investors continued to seek safe-haven assets.

"It was a mild profit-taking day. It was always going to happen after the wild volatility on Friday," said Andrew Roberts at Merrill Lynch.

Analysts said bond market investors were now largely immune to bad news from emerging markets and were increasingly anxious about a correction in equity prices.

European stock markets staged an unconvincing recovery yesterday, which was undermined towards the close when the Dow Jones Industrial Average started to turn down after opening slightly higher.

"A lot of what's happening in emerging markets is now in bond prices. The next major worry is equity markets, to see if there will be a sharp correction there," said Graham McDevitt at Paribas.

GERMAN BUNDS led European markets lower, taking their lead from US Treasuries. The September bund future settled 0.17 lower in Frankfurt at 112.76 with 530,000 contracts traded, but rallied later to stand at 112.88 by early evening. The 10-year bund yield closed at 4.27 per cent.

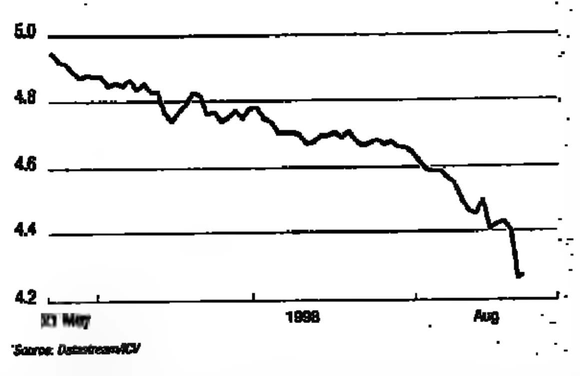
The underlying tone remained firm, however, and was bolstered by preliminary inflation data for August showing a fall in the consumer price index compared with July.

More figures due later this week are expected to confirm the falling inflation outlook in Germany, although the data are priced in and are unlikely to spark any significant shift in bunds.

Nevertheless, the inflation picture, combined with events in Russia and other emerging markets, could see the Bundesbank under pressure to do nothing on the interest rate front that would destabilise matters further, Mr McDevitt said.

German 10-year bund yield

Per cent



Source: Datastream/ICV

NORWEGIAN BOND prices slumped after the central bank raised its overnight lending rate again, to 10 per cent, but indicated it might be the last rise for a while.

The spread of Norway's 10-year bonds over bunds widened from 129 to 140 basis points, and other Scandinavian markets also fell.

UK GILTS were lower but still lagging behind bunds, with the September future settling 0.19 lower at 111.04 on turnover of 81,000 contracts. The 10-year gilt/bund spread was one point wider at 109 basis points.

US TREASURIES were mixed at midday, also on profit-taking following last week's record-breaking flight to quality trade. Fears of spreading currency devaluations sparked by events in Russia continued to be the focus for investors.

The 30-year bond, the benchmark for long-term interest rates, was down [illegible] to 100[illegible] by early afternoon, sending the yield higher to 5.472 per cent.

Shorter-term issues, however, managed to push slightly higher, with the 10-year note up [illegible] to 102[illegible], yielding 5.472 per cent, and the two-year note up [illegible] to 100[illegible], yielding 5.201 per cent.

Investors reacted mildly to the weekend shake-up in the Russian government, leaving some surprised that the latest sign of instability did not send bond prices higher still.

The early weakness in the market was also attributed to a sharp rise in stock prices at the opening of trading on Wall Street, which was evaporating by midday.

Investors, however, still appear to be catching their breath after last Friday's sharp rise, which sent the long-bond yield crashing to record lows. The fact that it not only broke through the prior resistance level of 5.50 per cent but remained below that yesterday reflected ongoing concern over emerging markets.

"There's still a lot of uncertainty as to what Russia is going to do and I think that's going to keep this market [US Treasuries] bid," said Kevin Logan at Dresdner Kleinwort Benson.

MSCI changes index for India

By Krishna Guha in Bombay

Morgan Stanley Capital International has made radical changes to its Standard Index for India, which is widely used as a benchmark for investors.

The index now includes information technology companies Infosys, NIIT, Satyam Computers and Wipro, core holdings for most foreign investors. The change recognises the spectacular growth of the software sector, which has risen seven times in value since the start of 1996.

MSCI has also added pharmaceutical and consumer goods companies to the index, while deleting a number of commodity stocks.

It said the new index captured 54 per cent of the market capitalisation, compared with 46 per cent for the old. MSCI also raised the overall weighting of India in its emerging market index.

The changes reflect profound changes within the top ranks of corporate India, formerly dominated by heavy industrial companies. Many of these are now in decline, and even the most successful are suffering from slower growth and depressed world commodity prices.

The main domestic benchmark, the BSE 30 index, is made up of the old industrial elite, plus other members of the business establishment, such as State Bank of India and Hindustan Lever. It does not include software stocks.

Analysts say the dismal performance of the BSE 30 exaggerates the uniformity of investor experience in India. While investors in industrial stocks have lost heavily, others have prospered by backing the sunrise sectors.

Primary bond issuance put on hold

By Edward Luce

Cash and swap spreads achieved relative stability in the eurobond markets yesterday after several days of virtual free-fall. But bond syndicate heads said there was practically no scope for significant primary market issuance until the Russian government had submitted its debt restructuring plan.

"Even then, it is doubtful the turmoil will subside, given the massive question mark hanging over the Hong Kong dollar peg and the lack of policy direction in Japan," said one banker.

Broadly speaking, most market players expect issuance to remain subdued until well into September at the earliest.

"Almost all the movement in the market over the last few weeks has come from dealers and traders," said Roman Schmidt, managing director at Barclays Capital in London. "We are all waiting for the real money to come back in."

Bankers said there was more scope in the near future for activity in the euro-denominated market than in other currencies, including the dollar.

In comparison with the dollar sector, the euro market has been insulated from the recent turmoil. This is partly because of the different nature of the euro investor base, which is dominated by European funds that tend to hold bonds until maturity. The market in euros is thus much less liquid – and price-sensitive – than the US dollar market.

Second, there are strong non-cyclical reasons why the euro market is expected to hold out relatively well against global financial turmoil in the next month.

With just 17 weeks until European monetary union, investment funds are looking to redenominate portfolios in the future single currency. Borrowers are also hoping to take a stake in the euro.

BNG, the Dutch bank, and the Inter American Development Bank are expected to issue euro-denominated bonds in the near future, although both deals are expected to be on hold until the market is calmer.

"There are strong secular reasons why the euro will be an active sector, whatever happens in the broader environment over the next few weeks," said a US banker in London.

In US dollars, triple A and double A names are expected to tap the market when conditions permit. Although spreads in the secondary bond markets have widened by 20 or 30 basis points in the past few weeks, this has been matched point for point by an equivalent widening in the swaps market. The overall cost of funding has, therefore, remained broadly static for the highest rated borrowers.

The same cannot be said for borrowers lower down the credit curve. One banker estimated paper losses on high-yield bonds at about 20 per cent over the past three weeks.

"It is unfortunate that we are seeing this type of loss just when everyone was recommending investors to go down the credit curve," said one banker.

GECC adds to three-tranche deal

INTERNATIONAL BONDS

By Edward Luce

GECC yesterday again braved market conditions with an add-on to the three-tranche deal it pulled off last week.

The offering, which was the only significant activity yesterday apart from a smaller issue by Crédit Local de France, underlined the growing demand for quality credits in the eurobond markets.

"Only names like GECC can issue at times like this," said one banker. "But it helps if the deal is floating-rate and short-dated."

An official at Paribas, which lead-managed the offering, said there was a shortage of high-quality short-dated paper in many European currencies.

French money market funds in particular had subscribed to the French franc denominated portion, which was doubled yesterday to FFr4bn.

In addition, GECC added $400m to the US dollar portion, bringing the total to $875m, and issued an E400m tranche which (including last week's D-Mark tranche) brings the number of currencies to four.

The two-year bond was offered to investors at Libor flat, roughly 3 basis points wider than where GECC would have priced it a few weeks ago.

"There has been widening in the FRN sector but it has been much less badly affected than fixed-rate," said an official, who added that both the initial launch and yesterday's add-on were fully subscribed and were trading flat to the offer price.

A number of other short-dated FRN offerings are believed to be in the pipeline.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
GECC(a1)‡	400	(a1)	100.012R	Sep 2000	0.05R	-	Paribas
■ FRENCH FRANCS							
GECC(a2)‡	2bn	(a2)	100.011R	Sep 2000	0.05R	-	Paribas
■ EUROS(e)							
GECC‡	300	(a3)	100.011R	Sep 2000	0.05R	-	Paribas
■ SWEDISH KRONOR							
Crédit Local de France	500	4.875	101.06	Oct 2005	1.875	-	BIL

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a1) $475m launched 20/8/98 increased to $875m. 3-mth Libor flat. a2) FFr2bn launched 20/8/98 increased to FFr4bn. 3-mth Pibor flat. a3) 3-mth Libor flat. e) Payments in Ecu prior to Emu.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Aug 24	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.6900	5.30	-	+0.04	+0.10	+0.13
	08/08	8.750	123.6950	5.58	-0.06	-0.01	+0.04	-1.28
Austria	07/00	5.875	103.7700	3.77	-0.09	-0.13	-0.29	-0.46
	01/08	5.000	103.5000	4.53	+0.02	-0.08	-0.29	-1.22
Belgium	01/00	4.000	100.4700	3.84	+0.01	-0.13	-0.35	-0.39
	03/08	5.750	109.1300	4.65	+0.04	-0.13	-0.32	-1.25
Canada	03/00	5.000	99.6300	5.31	+0.07	+0.01	+0.08	+1.38
	06/08	6.000	103.3600	5.55	+0.03	-0.02	+0.17	-0.47
Denmark	11/00	9.000	109.0300	4.28	+0.04	-0.01	-0.17	-0.39
	11/07	7.000	118.7000	4.72	+0.05	-0.03	-0.20	-1.57
Finland	01/99	11.000	102.9250	3.31	-0.04	-0.12	-0.28	-0.61
	04/08	6.000	111.3920	4.52	-0.03	-0.13	-0.34	-1.40
France	01/00	4.000	100.4400	3.66	+0.01	-0.12	-0.25	-0.44
	04/05	7.500	118.2300	4.15	+0.01	-0.18	-0.39	-1.10
	04/08	5.250	108.4900	4.41	+0.03	-0.16	-0.36	-1.21
	04/29	5.500	106.2300	5.09	+0.03	-0.05	-0.23	-1.24
Germany	03/00	4.000	100.5500	3.62	+0.06	-0.02	-0.27	-0.34
	10/05	6.500	113.6300	4.21	+0.02	-0.15	-0.40	-1.13
	01/08	5.250	107.2900	4.28	+0.01	-0.18	-0.40	-1.43
	01/28	5.625	108.3700	5.07	+0.07	-0.05	-0.21	-1.34
Ireland	10/01	6.500	106.5000	4.26	+0.01	-0.07	-0.37	-1.73
	08/08	6.000	110.4800	4.66	+0.03	-0.05	-0.32	-1.78
Italy	04/01	4.500	100.5200	4.11	+0.03	-0.11	-0.28	-1.92
	05/03	4.750	101.9500	4.28	+0.02	-0.15	-0.30	-1.92
	05/08	5.000	102.5500	4.66	+0.02	-0.07	-0.23	-1.87
	11/27	6.500	117.3500	5.31	+0.04	-0.01	-0.14	-1.66
Japan	03/00	6.400	109.2600	0.42	-0.03	-0.02	-0.15	-0.15
	06/03	4.500	116.9300	0.89	-0.04	-0.02	-0.23	-0.69
	03/05	3.000	112.1900	1.19	-0.04	-0.03	-0.24	-0.02
	03/18	2.700	110.0900	2.03	-0.04	-0.03	-0.29	-0.67
Netherlands	05/00	9.000	108.6600	3.68	-0.05	-0.13	-0.31	-0.44
	07/10	5.250	106.3000	4.45	+0.01	-0.12	-0.22	-1.19
New Zealand	02/01	8.000	103.3780	6.23	+0.05	-0.24	-0.51	-1.24
	11/06	8.000	112.1258	6.07	-0.06	-0.21	-0.19	-1.20
Norway	01/99	9.000	100.5200	7.37	+0.66	+1.74	+1.86	+2.68
	01/07	6.750	107.0300	5.67	+0.12	+0.39	+0.30	-0.45
Portugal	01/00	5.375	102.1600	3.92	+0.02	-0.11	-0.28	-1.37
	06/08	5.375	105.3100	4.68	+0.04	-0.09	-0.28	-1.71
Spain	04/00	6.750	104.4700	3.86	+0.04	-0.16	-0.28	-1.37
	01/08	6.000	109.7600	4.69	+0.04	-0.03	-0.25	-1.65
Sweden	05/00	10.250	109.4250	4.32	+0.05	+0.10	+0.06	-0.60
	05/08	6.500	113.5990	4.71	+0.06	-0.06	-0.19	-1.87
Switzerland	03/00	5.000	104.5800	1.94	-0.03	-	-0.19	+0.32
	05/07	4.500	113.1500	2.70	+0.04	-0.05	-0.29	-0.81
UK	11/01	7.000	102.1875	6.23	-0.01	-0.09	-0.49	-0.60
	12/03	6.500	103.3125	5.76	+0.01	-0.10	-0.51	-1.34
	12/07	7.250	112.7813	5.47	+0.02	-0.12	-0.46	-1.65
	12/28	6.000	111.0503	5.23	+0.02	-0.10	-0.33	-1.81
US	05/00	6.500	100.4025	5.25	-0.02	-0.08	-0.23	-0.67
	05/03	5.500	101.0523	5.24	-0.03	-0.13	-0.26	-1.08
	05/08	5.625	102.5313	5.29	-0.03	-0.11	-0.16	-1.08
	11/27	6.125	109.2560	5.55	+0.02	-0.06	-0.13	-1.12
ECU	07/00	4.000	100.2800	3.84	+0.03	-0.12	-0.33	-0.69
	04/08	5.250	108.0900	4.48	+0.05	-0.13	-0.34	-1.51

London closing. *New York mid-day. Source: Interactive Data/FT Information. Yields: Local market standard/annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Aug 24	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.55	+1.27	+0.26
Austria	4.59	+0.31	-0.70
Belgium	4.57	+0.29	-0.72
Canada	5.55	+1.27	+0.26
Denmark	4.75	+0.47	-0.54
Finland	4.54	+0.26	-0.75
France	4.43	+0.15	-0.86
Germany	4.28	-	-1.01
Ireland	4.66	+0.38	-0.63
Italy	4.73	+0.45	-0.56
Japan	1.47	-2.81	-3.82
Netherlands	4.43	+0.15	-0.86
New Zealand	6.07	+1.79	+0.78
Norway	5.41	+1.13	+0.12
Portugal	4.71	+0.43	-0.58
Spain	4.75	+0.47	-0.54
Sweden	4.73	+0.45	-0.56
Switzerland	2.69	-1.59	-2.60
UK	5.39	+1.11	+0.10
US	5.29	+1.01	-
ECU	4.47	+0.19	-0.82

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Aug 24	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	94.5343	8.85	-0.26	+1.36	+3.67
Poland	07/04	7.125	BBB-	101.4374	6.82	-0.26	+0.45	+1.61
Russia	06/07	10.000	B+	31.5500	36.02	+1.44	+20.36	+30.75
■ LATIN AMERICA								
Argentina	09/27	9.750	BB	72.2646	13.62	-0.05	+3.55	+8.15
Brazil	05/27	10.125	BB-	62.5000	16.30	-0.39	+5.13	+10.88
Mexico	05/26	11.500	BB	89.0000	12.96	-0.64	+3.35	+7.50
■ ASIA								
China	07/06	7.750	BBB+	94.1795	8.80	-0.26	+1.80	+3.55
Philippines	10/16	8.750	BB+	79.9818	11.38	-0.26	+2.08	+6.01
Thailand	04/07	7.750	BBB-	79.9889	11.51	-0.26	+2.05	+6.24
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	100.6778	8.71	-0.26	+0.63	+3.49
South Africa	10/06	8.375	BB+	91.3862	9.96	-0.23	+1.27	+4.71
Turkey	08/07	10.000	B	89.4174	11.97	-0.26	+2.06	+6.70
■ BRADY BONDS								
Argentina	03/23	5.750	BB	62.6250	10.14	-0.14	+1.93	+4.71
Brazil	04/14	5.000	BB-	55.1250	14.82	-0.26	+4.40	+9.47
Mexico	12/19	6.250	BB	72.2500	9.25	-0.25	+1.41	+3.86
Venezuela	03/20	6.750	B+	60.6250	11.83	-0.58	+2.77	+6.43

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	107.96	107.96	-	-	-	-	125,613
Dec	107.50	107.50	-	-	-	-	18,647

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Sep	CALLS Oct	CALLS Dec	PUTS Sep	PUTS Oct	PUTS Dec
102	6.30	5.83	5.83	-	-	0.02
103	5.30	4.83	4.83	-	-	0.04
104	4.30	3.83	3.90	-	0.01	0.10
105	3.30	2.86	3.02	-	0.04	0.22

Est. vol. total, Calls 24,067 Puts 12,482. Previous day's open int., Calls 93,209 Puts 88,895.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	112.67	112.76	-0.17	112.97	112.50	6769	71668
Dec	112.00	111.74	-0.22	112.00	111.68	339	2167

■ NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	112.60	112.88	+0.07	112.98	112.46	833,282	698,282
Dec	111.57	111.88	+0.04	111.98	111.84	60,369	151,602

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Sep	CALLS Oct	CALLS Nov	CALLS Dec	PUTS Sep	PUTS Oct	PUTS Nov	PUTS Dec
11250	0.43	0.48	0.73	0.89	0	1.02	1.27	1.43
11300	0	0.32	0.54	0.70	0.07	1.36	1.58	1.74
11350	0	0.20	0.39	0.54	0.57	1.74	1.93	2.08

Est. vol. total, Calls 810 Puts 154. Previous day's open int., Calls 90093 Puts 121396

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	107.63	107.86	+0.06	107.90	107.62	175,071	305,346
Dec	107.24	107.28	+0.06	107.28	107.05	11,817	38,999

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	123.15	123.00	-0.32	123.22	122.75	21545	97818
Dec	109.23	109.21	-0.31	109.26	108.98	1622	11287

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Oct	CALLS Nov	PUTS Oct	PUTS Nov
10950	0.45	0.58	0.43	0.56
11000	0.24	0.38	0.72	0.84
11050	0.11	0.21	1.09	1.19

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 380 Puts 0

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	112.40	112.27	-0.23	112.40	112.07	63,409	111,274
Dec	112.66	112.61	-0.25	112.69	112.59	269	530

UK

■ NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	104.62	104.58	+0.03	104.62	104.51	37	2317
Dec						0	0

■ NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	111.00	111.04	-0.19	111.22	110.80	82157	141481
Dec	111.19	111.26	-0.17	111.40	111.03	25896	27337

■ LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	CALLS Sep	CALLS Oct	CALLS Nov	PUTS Sep	PUTS Oct	PUTS Nov
11100	0.23	1.00	1.26	0	0.57	0.83
11150	0	0.73	1.00	0.27	0.80	1.07
11200	0	0.52	0.75	0.77	1.09	1.32

Est. vol. total, Calls 12105 Puts 1047. Previous day's open int., Calls 71523 Puts 47398

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	125-08	124-28	-0-05	125-17	124-26	916,614	738,520
Dec	124-31	124-23	-0-05	125-15	124-21	77,671	302,160
Mar	124-19	124-18	-0-02	124-20	124-13	10,004	54,372

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	134.67	134.75		134.82	134.65	2848	na
Dec	134.37	134.45		134.52	134.35	1428	na

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	-	106.62	-0.34	-	-	0	15

US CORPORATE BONDS

Aug 24	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA-	104.4047	5.94	-0.04	-0.06	+0.72
NY Tel	03/25	7.00	A+	100.6302	6.94	-0.01	-0.01	+1.48
CWE	05/08	8.00	BBB	112.0109	6.32	-0.01	-0.14	+1.08
■ FINANCIALS								
GECC	05/07	8.75	AAA	118.0807	6.05	-0.01	+0.02	+0.73
Banc One	08/02	7.25	A+	104.5257	5.94	-0.04	-0.16	+0.72
US West	01/07	7.30	BBB	103.3427	6.44	-	+0.25	+0.96
■ INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.1016	6.06	-	-	+1.14
Wal Mart	05/02	8.75	AA	103.6875	5.63	-0.04	-0.27	+0.41
Dayton Hud	08/21	8.70	BBB+	120.4091	6.65	-0.01	-0.04	+1.19
■ AGENCIES								
FHLMC	04/07	7.14	N/A	109.6941	5.67	-0.08	-0.13	+0.35
SLMA	03/00	7.50	N/A	102.[illegible]	5.50	-0.08	-0.14	+0.27
FNMA	02/18	8.95	N/A	135.3524	5.87	-0.14	-0.11	+0.41
FFCB	05/08	8.95	N/A	120.4955	5.66	-0.06	-0.13	+0.35
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	99.5000	0.00	-	-	-
AK Stl	12/01	9.13	BB-	103.3750	0.00	-	-	-
Pacsita	08/04	10.75	B-	87.0000	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	$8\frac{1}{2}$	One month	-	Two year	5.22
Broker loan rate	$7\frac{1}{4}$	Two month		Three year	5.19
Fed.funds	$5\frac{1}{2}$	Three month	5.04	Five year	5.16
Fed.funds at intervention	$5\frac{1}{2}$	Six month	5.14	10-year	5.30
		One year	5.16	30-year	5.46

INTERNATIONAL BONDS

Aug 24	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO DM								
EIB	02/07	5.750	AAA	108.8600	4.48	-0.01	-0.34	+0.22
Spain	01/07	5.750	AA	108.8100	4.46	-0.05	-0.35	+0.22
Philip Morris	03/04	5.375	A	103.0300	4.73	+0.03	-0.27	+0.52
Finland FRN	00/02	3.429	AA	100.8790	3.34	+0.04	-0.42	-0.50
■ EURO FFR								
Austria	01/04	5.500	AAA	106.6700	4.09	+0.02	-0.41	+0.03
Abbey Nat	02/04	5.000	AA	103.5300	4.21	+0.01	-0.39	+0.13
Cred Foncier	02/04	9.125	A	121.6400	4.86	+0.07	-0.24	+0.50
SOF FRN	12/01	3.833	AA-	99.8795	3.89	+0.03	-0.33	-0.13
■ EURO LIRA								
EIB	02/07	7.000	AAA	116.3800	4.62	+0.01	-0.27	-0.03
Abbey Nat	02/02	6.500	AA	107.9000	4.30	+0.01	-0.30	+0.05
Walt Disney	06/00	8.625	A	107.3000	4.34	-0.01	-0.21	+0.16
EIB FRN	03/01	4.892	AAA	100.0155	3.95	+0.03	-0.25	-0.20
■ EURO £								
EIB	12/07	7.625	AAA	111.5303	5.95	+0.01	-0.37	+0.44
Dresdner Bk	12/07	7.750	AA-	108.8927	6.44	+0.01	-0.40	+0.93
British Gas	03/00	7.625	A+	100.4222	7.29	-0.03	-0.48	+0.70
Abbey Nat FRN	02/02	7.900	AA	100.1243	6.03	-0.01	-0.50	+0.04
■ EURO $								
EIB	04/07	7.250	AAA	108.8900	5.90	+0.20	+0.04	+0.30
ABN Amro	08/07	7.125	n/a	106.4725	6.16	+0.01	-0.24	+0.89
Daimler	01/07	7.000	A+	106.8724	5.98	+0.01	-0.26	+0.68
Citicorp FRN	02/04	5.754	A+	100.9159	5.38	+0.01	-0.27	+0.15
■ EURO C$								
Bayer L-Bk	08/04	9.500	AAA	116.8289	6.05	+0.01	+0.22	+0.15
Toronto	05/04	8.500	AA+	111.9644	5.97	+0.01	+0.18	+0.07
Bell Canada	07/00	10.625	A+	103.9498	5.85	+0.02	+0.10	+0.86
Deutsche B FRN	08/02	5.675	AAA	99.9482	5.69	-0.03	+0.12	+0.16
■ EURO YEN								
World Bank	03/02	6.250	AAA	115.7828	0.76	-0.03	-0.18	-0.01
Spain	03/02	5.750	AA	117.6322	0.73	-0.03	-0.20	-0.04
Cred Foncier	08/02	4.750	A	113.5311	1.22	-0.03	-0.18	+0.45
Italy FRN	07/00	0.727	AA	100.5870	0.12	-0.01	-0.06	-0.29

London closing. Standard & Poor's ratings. Yields: Local market standard/annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Mon Aug 24	Day's change %	Fri Aug 21	Accrued interest	xd adj. ytd
1 Up to 5 years (17)	118.92	0.04	119.20	1.83	7.09
2 5-15 years (20)	166.07	-0.11	166.25	2.72	6.71
3 Over 15 years (5)	211.59	-0.21	212.02	2.60	7.40
4 Irredeemables (4)	273.77	-0.06	273.93	3.32	8.53
5 All stocks (46)	157.89	-0.08	157.96	2.37	7.20
Index-Linked					
6 Up to 5 years (2)	220.31	0.01	220.29	1.87	3.13
7 Over 5 years (9)	237.75	-0.01	237.76	0.87	5.06
8 All stocks (11)	234.33	0.00	234.34	1.04	4.70

UK Indices

Yield indices	Low coupon yield Aug 24	Low coupon yield Aug 21	Low coupon yield Yr. ago	Medium coupon yield Aug 24	Medium coupon yield Aug 21	Medium coupon yield Yr. ago	High coupon yield Aug 24	High coupon yield Aug 21	High coupon yield Yr. ago
5 yrs	5.83	5.83	7.00	5.90	5.90	7.06	5.90	5.91	7.12
15 yrs	5.32	5.30	7.00	5.44	5.42	7.07	5.53	5.52	7.13
20 yrs	5.30	5.28	7.00	5.42	5.40	7.07	5.52	5.51	7.13
Irred.†	5.52	5.51	7.16						

Index-Linked	Inflation 5% Aug 24	Inflation 5% Aug 21	Inflation 5% Yr. ago	Inflation 10% Aug 24	Inflation 10% Aug 21	Inflation 10% Yr. ago
Up to 5 yrs	2.77	2.77	3.57	2.06	2.06	2.91
Over 5 yrs	2.47	2.46	3.60	2.27	2.26	3.41

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Aug 24	Aug 21	Aug 20	Aug 19	Aug 18	Yr ago	High*	Low*
Govt. Secs. (UK)	107.07	107.19	106.64	106.19	106.25	95.61	106.73	93.31
Fixed Interest	145.89	145.95	145.19	144.75	144.79	125.54	146.76	115.32

© FTSE International Ltd 1998. All rights reserved. * for 1998. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 146.76 (15/08/98), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts* (Lives up to Five Years)							
Treas 15½pc '98		15.39	7.25	100[illegible]	[illegible]	108½	100[illegible]
Exch 12pc 1998		11.86	7.37	101	-	105[illegible]	101
Treas 9½pc 1999		9.43	7.35	100[illegible]	-	103[illegible]	100[illegible]
Treas Flg Rate 1999		-	-	100[illegible]	-	100[illegible]	100[illegible]
Exch 12¼pc 1999		11.92	7.32	102[illegible]	[illegible]	107[illegible]	102[illegible]
Treas 10½pc 1999		10.27	7.25	102[illegible]	-	105[illegible]	102[illegible]
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Funding 3½pc 1999-4		3.72	4.67	94	[illegible]	94	86½
Conv 9½pc 2004		7.98	5.77	119[illegible]	[illegible]	119[illegible]	113[illegible]
Treas 6¾pc 2004		6.39	5.65	105[illegible]	[illegible]	105[illegible]	98[illegible]
Conv 9½pc 2005		7.88	5.74	120½	[illegible]	120[illegible]	113[illegible]
Exch 10½pc 2005		8.26	5.76	127[illegible]	[illegible]	127[illegible]	120[illegible]
Treas 12½pc 2003-5		9.65	5.84	129[illegible]	[illegible]	130[illegible]	126[illegible]
Treas 8½pc 2005		7.28	5.65	116[illegible]	[illegible]	116[illegible]	108[illegible]
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Notes	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
Index-Linked (b)							
2½pc '99		1.25	2.16	194[illegible]	-	194[illegible]	182[illegible]
2½pc '01	(78.3)	2.85	3.24	200[illegible]	[illegible]	200[illegible]	187[illegible]
2½pc '03	(78.8)	2.71	2.98	199[illegible]	[illegible]	199[illegible]	183[illegible]
4⅝pc '04	(135.6)	2.56	2.76	128[illegible]	[illegible]	128[illegible]	118[illegible]
2pc '06	(69.5)	2.51	2.66	219[illegible]	[illegible]	219[illegible]	194[illegible]
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCIES & MONEY

Traders turn on Norway and Canada

MARKETS REPORT

By Simon Kuper

The currencies of commodity exporting countries came under severe attack yesterday. Norway had to raise interest rates for the second time since Friday after the krone hit a six-year low against the European currency unit (Ecu), while Canada, which did not raise rates, saw the Canadian dollar hit a new 140-year low.

Norway also said it would abandon – for the moment at least – its policy of keeping the krone stable. Kjell Storvik, governor of Norges Bank, said that there would be "no more adjustments in interest rates for the time being", and that the bank would not intervene for the krone on a large scale.

Australia, another exporter of commodities, saw its currency drop to a 12-year low of $0.579 against the US dollar.

Commodity prices have been sliding all year, and could fall further if Russia, which devalued the rouble last week, dumps large amounts of oil and precious metals in the market. The Commodity Research Bureau index, traded in Chicago, ended last week at a five-and-a-half year low.

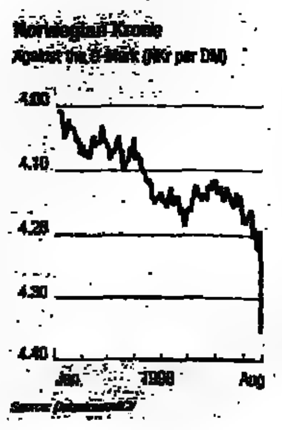
Rebecca Patterson, currency strategist at J.P. Morgan in London, said: "In the last few days we have been getting more concern about a global slowdown. That is definitely going to weigh on commodity-linked currencies, because it is going to have an impact on demand."

However, the krone and Canadian dollar were hit by more than just falling commodity prices. Currency strategists noted that the Norwegian and Canadian central banks were among the only ones in the west that still tried to micromanage their exchange rates. Since Russia devalued, the market has been hunting down such regimes, keeping pressure on the Hong Kong dollar and the Venezuelan bolivar yesterday.

The yen bounced after more Japanese officials threatened that Tokyo might intervene for its currency.

■ Norway is the world's second largest oil exporter, and its currency has been sliding with the oil price. Yesterday Norges Bank raised interest rates by 100 basis points, having increased them by 250 points on Friday. Its overnight lending rate went from 9 per cent to 10 per cent, and its deposit rate from 7 per cent to 8 per cent.

Norway has now effectively allowed its currency to float. This is a drastic change: the central bank has spent SKr5.5bn in little over a month on supporting the krone whenever it has fallen below 105 against the Ecu index of European currencies. Claus Eklund, chief economist at S-E Banken in Stockholm, said the krone had now entered an interregnum where Norway's long-term exchange rate policy was still to be decided.



Yesterday the krone plummeted from NKr4.294 against the D-Mark to close in London at NKr4.355. It dragged down the Swedish krona, which fell from SKr4.546 to SKr4.586 against the German currency. Mr Eklund said that the pressure on the Swedish currency was irrational, given that Sweden did not depend on oil exports, did not operate a fixed exchange rate and was at a different stage of the economic cycle to Norway.

■ The Bank of Canada bought its currency in the market, as it has almost every day for the last fortnight, yet the Canadian dollar fell again. Many traders were disappointed in their belief that Canada would raise interest rates yesterday in defence of the "loonie". It closed 1.1 cents down at C$1.548 to the US dollar.

■ The yen gained after Keizo Obuchi, Japan's prime minister, said he was closely watching the Tokyo stock market and the dollar yen rate, and Eisuke Sakakibara, senior finance ministry official, again made explicit threats to intervene in the currency market.

Mr Sakakibara was quoted as saying that since sentiment about Japan's economy was changing, "It makes sense to intervene. If we are right, the intervention could be effective."

Few currency strategists could see perceive any change in sentiment over Japan. But the yen bucked the fall in the Nikkei stock market, rising Y1.4 against the dollar to Y143.8.

■ POUND IN NEW YORK

Aug 24	—Latest—	— Prev. close —
£ spot	1.6400	1.6365
1 mth	1.6370	[illegible]
3 mth	1.6320	1.6285
1 yr	1.6118	[illegible]

■ OTHER CURRENCIES

Aug 24	£	$
Czech Rp	[illegible]	[illegible]
Hungary	[illegible]	[illegible]
Iran	4919.70 - 4917.00	3000.00 - 3000.00
Kuwait	[illegible]	[illegible]
Peru	4.8829 - 4.8865	2.9670 - 2.9680
Poland	6.0151 - 6.0348	3.6700 - 3.6800
Russia	[illegible]	[illegible]
U.A.E.	6.0166 - 6.0227	3.6721 - 3.6728

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
95375	0.060			0.115		
95500	0.025	0.730	0.855	0.215	0.010	0.010
95625	0.015			0.330		

Est. vol. total, Calls 3740 Puts 5450. Previous day's open int., Calls 181174 Puts 138597

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

■ D-MARK FUTURES (IMM) DM 125,000 per DM

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

■ STERLING FUTURES (IMM) £62,500 per £

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
92250	0.090	0.310	0.560	0.020	0.040	0.060
92375	0.030			0.085		
92500	0.010	0.135	0.365	0.190	0.115	0.115
92625	0.005			0.310		
92750	0	0.050	0.210	0.430	0.280	0.210
92875	0			0.555		

Est. vol. total, Calls 8263 Puts 8807. Previous day's open int., Calls 633180 Puts 586708

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

BASE LENDING RATES

	%		%		%
Adam & Company	7.50	Exeter Trust Limited	8.50	●Smith & Williamson	7.50
Allied Irish Bank (GB)	7.50	Financial & Gen Bank	8.00	Sun Bank	7.50
●Henry Ansbacher	7.50	●Robert Fleming & Co	7.50	TSB	7.50
Banco Bilbao Vizcaya	7.50	Habib Bank AG Zurich	7.50	United Bank of Kuwait	7.50
Bank of Cyprus	7.50	●Hambros Bank	7.50	Unity Trust Bank Plc	7.50
Bank of Ireland	7.50	Heritable & Gen Inv Bk	7.50	Whiteaway Laidlaw	7.50
Bank of India	7.50	C Hoare & Co	7.50	Yorkshire Bank	7.50
Bank of Scotland	7.50	Hongkong & Shanghai	7.50		
Barclays Bank	7.50	Investec Bank (UK) Ltd	7.50	● Members of London Investment Banking Association	
Brit Bk of Mid East	7.50	Julian Hodge Bank	7.50		
●Brown Shipley & Co Ltd	7.50	●Leopold Joseph & Sons	7.50		
Citibank NA	7.50	Lloyds Bank	7.50		
Clydesdale Bank	7.50	Midland Bank	7.50		
The Co-operative Bank	7.50	NatWestminster	7.50		
Coutts & Co	7.50	●Rea Brothers	7.50		
Cyprus Popular Bank	7.50	Royal Bk of Scotland	7.50		
Duncan Lawrie	7.50	Scottish Widows Bank	7.50		
		●Singer & Friedlander	7.50		

COMMODITIES & AGRICULTURE

RUBBER BIG GROWERS PLAN CUT IN OUTPUT

End in sight for Inro agreements

By Gary Mead in London and Ted Bardacke in Bangkok

The decision by Thailand and Malaysia to withdraw from the 22-member International Natural Rubber Organisation (Inro) will almost certainly mean the end of its international agreements.

Thailand and Malaysia say they intend establishing a producers-only organisation, to exercise greater control over the global price of natural rubber.

The assumption by some industry analysts is that these two dominant natural rubber producers aspire to create an institution similar to that of the Organisation of Petroleum Exporting Countries.

Thailand, in particular, is known to want to enforce a plan to keep natural rubber production 20 per cent below world demand.

Thailand and Malaysia are likely to throw much more effort into the other important natural rubber industry body, the Association of Natural Rubber Producing Countries (ANRPC).

The eight countries grouped in the ANRPC, which accounts for 80 per cent of the world's production, plan to replace the Inro price support scheme with three measures:

- A national withholding scheme to limit supply to below current demand;
- a co-ordinated marketing system to lower competition between different producers;
- and a private sector-led consortium to stockpile rubber during periods of oversupply and low prices.

Some specialists are sceptical that Malaysia and Thailand will be able to take a firm grip on the market.

"One can see why they might want to, with the price of natural rubber having fallen from a $1 a pound to about 60 cents, but where Inro has failed it is difficult to see anything else succeeding," said one.

David Shaw, editor of the European Rubber Journal, believes their hopes of imposing controls over production levels in order to underpin prices are doomed.

"It won't work for two reasons. The price in Indonesia [in local currency terms] is so good at the moment that they will continue to produce as much as they can. Previous attempts to reduce production failed and stuff got out."

Thailand wants to keep rubber production 20 per cent below demand Panos Pictures

For one thing, the current glut of natural rubber is likely to remain for some time. The economic slowdown in Asia, the turmoil in Russia, and projected growth of GDP in OECD countries in 1998 of just 2.4 per cent, against 3.1 per cent last year, are all likely to dampen demand for natural rubber.

The biggest demand for natural rubber, 60 to 70 per cent of the total, comes from tyre manufacturers, with about 10 per cent going to other users and the rest consumed by producer countries themselves. Many analysts suspect the world's biggest producers of tyres have ample stockpiles, enabling them to withstand threats of a reduction in output.

The ANRPC plans to meet in September to work out the mechanics of the new price support system.

Further ideas likely to be pursued include the development and management of a buffer stock of about 250,000 tonnes; Inro's rules permit it currently to carry a buffer stock of 550,000 tonnes.

Under the new proposals being considered, the ANRPC buffer stock manager would have to intervene to buy rubber on the world markets if the average daily market indicator price dropped 15 per cent below a reference price; under Inro rules this 'must-buy' level is set at 20 per cent.

The reference price would be reviewed annually, to tie it more closely to actual market conditions.

While there are evidently some significant changes on the cards, the details for any proposed natural rubber cartel to replace Inro are likely to take some time to be agreed between all the producer countries.

In the meantime Inro will limp on. The current, third, International Natural Rubber Agreement, under Inro regulations, is not due to run out until the end of 1999; all that can be said for certain is that there will not be a fourth.

Tin tightness eases slightly

MARKETS REPORT

By Kenneth Gooding and Gary Mead

On the London Metal Exchange, the tightness gripping the tin market eased slightly. The premium for tin for immediate delivery, compared with metal for delivery in three months, was $130 a tonne against $160 on Friday.

On Friday, the LME imposed a limit of $30 a tonne on the cost of rolling a tin contract forward for one day.

An identical, but informal condition, imposed on one "dominant position holder", had been lifted by the exchange earlier in the week but the tightness flared up again.

Yesterday, three-month tin was down $20 a tonne by the LME close at $5,480.

On the bullion market neither stock market jitters nor concerns about Russia's financial problems could awaken gold from its summer slumber and the price closed in London virtually unchanged at $284.85 a troy ounce.

The becalmed global oil markets looked as if they might stir yesterday after news reports that Shell's Nigerian crude exports would be further disrupted by an extension of the *force majeure* at its Forcados and Bonny terminals.

However, Brent crude for October quickly regained its balance on London's International Petroleum Exchange. In late trading it was $12.22 a barrel compared with Friday's close of $12.27.

Soft commodities were again dull. The only real movement of significance on the London International Financial Futures Exchange was the white sugar contract for October, which hit a new low of $233.90, down $6.90 from the close of business last Friday and a fall of more than $12 since Thursday.

Investment funds began to sell the contract heavily on the back of evidence of a growing global glut.

Expectations of another massive European Union sugar beet crop – harvesting of which is due to begin next month – also hit the market. An estimate from the European Commission on June 25 of 16.03m tonnes is now beginning to look very low, according to specialists.

Elsewhere on Liffe, the September cocoa contract was under attack on thin volume of just 1,543 lots, with its £1,025 a tonne close, down £20, the lowest since mid-April. September coffee finished $18 higher at $1,636 a tonne.

Fall seen in Costa Rica coffee crop

By Our Commodities Staff

Costa Rica's coffee crop is expected to fall 5.3 per cent in 1998-99, compared with the previous season.

Industry officials said the growing areas had been hit by a six-month drought earlier this year, caused by El Niño, the abnormal warming of the Pacific that disrupts global weather systems.

"The El Niño phenomenon has affected all the principal coffee growing areas in the country, in particular those of Naranjo, Grecia, Palmares and San Ramon, in the western part of the Central Valley, and in Perez Zeledon in the south-east," said Guillermo Canet, executive director of the Costa Rican Coffee Institute (ICAFE).

According to ICAFE statistics based on surveys made in early August, production for the 1998-99 season will come to about 2.32m 60kg bags.

In spite of the losses in the famous Central Valley area close to the capital San Jose, Mr Canet said Costa Rica's second-largest producing area of Coto Brus in the south was likely to post moderate growth and make up for some losses elsewhere.

About 30 per cent of Costa Rica's coffee is produced in the Perez Zeledon, Coto Brus and Naranjo growing areas. Perez Zeledon is forecast to produce some 291,333 bags in 1998-99, a 15.7 per cent drop from 1997-98, as lack of rains caused failure of the flowering process in large parts of that coffee zone.

Naranjo is expected to register close to 159,083 bags, a drop of about 27.6 per cent compared with the 1997-98 season.

In Coto Brus, where the most favourable climatic conditions have been recorded, the harvest is projected to rise 6.5 per cent to 346,866 bags.

Indian tea producers to be hit by reduction in import duty

By Kunal Bose in Calcutta

Indian tea producers are facing greater competition after the government's decision to allow imports of tea at a concessional customs duty of 10 per cent from Sri Lanka, Bangladesh and Nepal.

India is the world's largest tea producer. Even though it has a big domestic market, large imports are likely to bring lower prices and affect producers' profitability, according to Vinay Goenka, chairman of the Indian Tea Association.

"Sri Lanka and Bangladesh, which are recording major gains in production in the current year, will try to push their surplus teas in India," he said.

Sri Lanka produces nearly 280m kg of tea a year, almost all of which is exported. Its biggest market for whole leaf tea is Russia, but an industry official said the economic crisis there could restrict tea imports this year.

Russia is also a big market for Indian tea and last year accounted for 91m kg of the 203m kg that India exported.

Some Sri Lankan tea may be re-exported from India. However, teas grown in the southern Indian states of Tamil Nadu, Kerala and Karnataka already face tough competition from Sri Lanka and operate on low margins. Indian officials now fear nominal import duty will encourage Sri Lankan exports to India.

Mr Goenka said: "The import of high-grown orthodox teas from Sri Lanka and Nepal will be used for blending with Darjeeling tea, which has a distinctive character. But such blending will cause dilution of quality and prices of Darjeeling tea. Most Darjeeling gardens are in bad shape and any tinkering with tea grown in the hills of Darjeeling will be ruinous."

The ITA is also concerned about imports of poor quality of crush, tear and curl (CTC) teas from Bangladesh, which produces about 55m kg a year. An increase in supplies from Bangladesh is likely to hit Indian producers in Dooars and Terai in West Bengal and Cachar in Assam.

"The prices of teas produced in these areas will fall to very low levels as imports start," an official said.

The ITA thinks Sri Lanka and Bangladesh will have a competitive edge in exporting packeted tea since the 1998-99 Indian budget levied an excise duty on locally produced tea packets of more than 100 grams.

"We are asking the government to raise the customs duty to give us a level playing field," said an ITA official.

However, some tea blenders believe India should import medium to poor quality teas so it has a bigger surplus of good quality teas for export.

India hopes to lift production by 30m kg to 840m kg in 1998. Whether it will be able to achieve the export target of 205m kg this year will depend on the volume of Russian buying.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1334.5-5.5	1354-55
Previous	1323.5-4.5	1343-4
High/low	[illegible]	[illegible]

[illegible]

Precious Metals continued

GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int.
Aug	285.0	-0.2	285.5	284.0	85	269
Oct	286.0	-0.1	288.4	[illegible]	1,366	12,139
Dec	288.5	-0.2	289.1	288.0	29,223	110k
Feb	290.3	-0.2	290.7	290.1	1,099	13,762

[illegible]

ENERGY

[illegible]

GRAINS AND OIL SEEDS

WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int.
Sep	71.25	-0.20	71.50	71.50	19	211
Nov	72.90	-0.50	73.00	72.60	78	3,226
Jan	74.40	-0.50	75.00	74.70	56	2,100
Mar	76.30	-0.45	77.25	76.75	–	1,205

[illegible]

PULP AND PAPER

[illegible]

SOFTS

COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int.
Sep	1025	-20	1045	1024	1,760	20,874
Dec	1062	-19	1081	1061	4,010	52,163
Mar	1088	-18	1106	1088	542	41,034
May	1104	-18	1121	1107	84	14,404

[illegible]

INDICES

[illegible]

MEAT AND LIVESTOCK

LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int.
Aug	57.850	-0.075	58.050	57.850	561	1,696
Oct	58.875	+0.060	59.250	58.400	6,675	44,268
Dec	60.925	-0.175	61.350	60.500	2,790	20,765
Feb	62.475	-0.150	62.950	61.950	794	12,224

[illegible]

LONDON TRADED OPTIONS

[illegible]

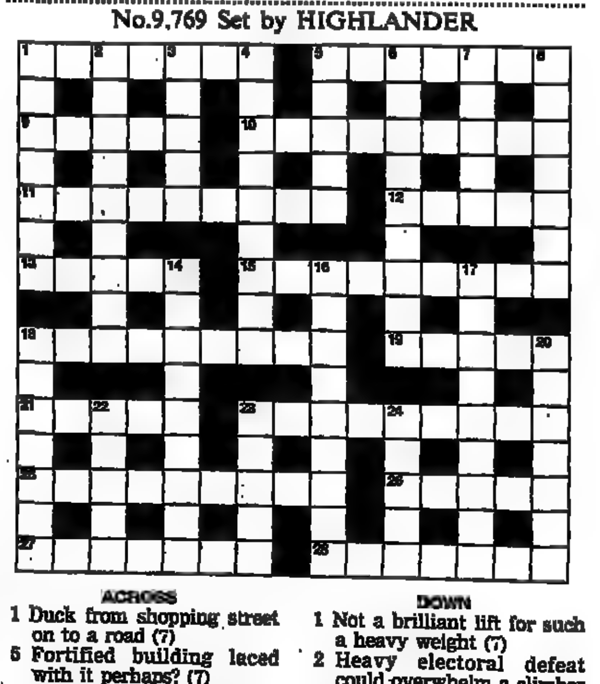
LONDON SPOT MARKETS

[illegible]

JOTTER PAD

CROSSWORD

No.9,769 Set by HIGHLANDER



ACROSS

1 Duck from shopping street on to a road (7)
5 Fortified building laced with it perhaps? (7)
9 Left, right. This one in Greece is beyond help (5)
10 Hunting dog, very English, taken in by abandoned terrier (9)
11 Stamina affected by an Australian (9)
12 Wolf in ravine (5)
13 No sound made by horse (5)
15 Winner's prize: mineral deposits, sources of great wealth (4,5)
18 Environmentally acceptable instrument for beginner (9)
19 From my point of view the solver and most of the teenagers (5)
21 Engages with second-row forwards (5)
23 Move up from advertising (9)
25 An unpleasant task involving silver coming from Alaskan port (9)
26 Remains as Ambassador to Sweden (5)
27 It keeps locks in place if the rain is bad (7)
28 Don't sit down next to champion (5,2)

DOWN

1 Not a brilliant lift for such a heavy weight (7)
2 Heavy electoral defeat could overwhelm a climber (9)
3 The trick is to absorb oxygen before a blood vessel (5)
4 The German opera group perform with boldness (7-2)
5 Interrupt reduction in two metals (2,3)
6 Slender, tacky object (9)
7 Port finished by daughter (5)
8 Big ship – Bounty perhaps? (7)
14 Leaves behind easily (5,4)
16 People with vested interest in preserving capital (9)
17 Fed in our specially constructed shed (9)
18 A light confection containing nothing for the big guy (7)
20 According to Whately best policy for silver-podded plant (7)
22 What succulent plants do in Jersey and Guernsey? (5)
23 Found cutting equipment (5)
24 Taken from a Hardy novel featuring part of Nebraska (5)

Solution to Saturday's prize puzzle on Saturday September 5.
Solution to yesterday's prize puzzle on Monday September 7.

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Fidelity Currency Funds Ltd

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GUERNSEY (REGULATED)(**)

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Hanson Ireland Ltd

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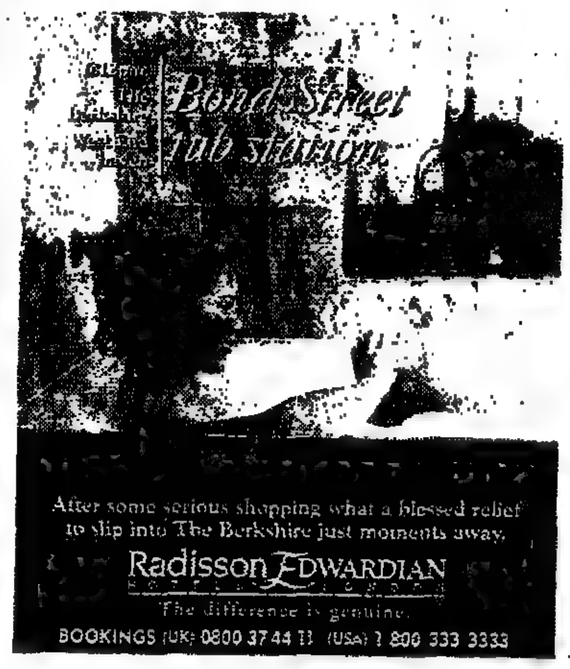
Royal Bank of Scotland International Ltd

JERSEY (REGULATED)(**)



Morgan Grenfell Investment Funds Ltd - Contd.

Citizens Investment Trust Mngt Company

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

LUXEMBOURG (FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	†N	538	-2	646	414	1,606	4.6	13.1
Bulmer (HP)		347½xd	-3	485½	295	-	5.4	15.0
Burn Stewart	‡	11	-	63½	8½	10	19.3	-
Diageo	‡	678	+25	735	432	3,481	3.3	29.8
Glenmorangie A		848	-30	975½	755	3	2.1	19.7
B		937½	-	1000	890	-	0.9	43.7
Highland	‡	250½	-	325	247	288	4.5	11.6
5¾pc Cv Sb Bd		95¼	-	99½	85½	-	6.2	-
Kirin Y		589½	+2½	598	416½	-	1.0	-
Matthew Clark	‡	174xd	-	286	157	177	9.3	5.8
Merrydown		38½	-	78½	37½	-	-	●
Seagram C$		£20[illegible]	+¼	£28[illegible]	£18[illegible]	-	1.2	-

BANKS, RETAIL

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
ABN Amro Fl		£14[illegible]	[illegible]	£18[illegible]	£10[illegible]	-	2.1	21.2
ANZ A$		349	-2¼	618¼	341	-	6.9	●
Abbey National	‡	1000xd	+10	1345	779½	1,719	3.7	16.2
Alliance & Leicester	‡	808½	+10½	1032	585	472	3.3	18.0

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Approved by the Inland Revenue

[illegible]

Net asset values supplied by BT Alex Brown International as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Continued

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Continued

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAINS	[illegible]	—	[illegible]	2472	-	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by [illegible], part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these stocks are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on [illegible] traded over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for these particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on [illegible] 'Headline Earnings' [illegible].

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a notional tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discount (Dis) or premium (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- [illegible] Figures or report awaited
- [illegible] Rate 2 1/2% Overseas incorporated companies listed on an approved exchange
- ♣ Free annual/interim report available, see details below
- †† Rate 4.25% Irish incorporated non-listed companies
- # Price at time of suspension
- [illegible] Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- [illegible] Unregulated collective investment scheme.

a Yield based on assumed dividend. b Figures based on prospectus or other official estimate. [illegible] Assumed dividend yield after scrip issue. e Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. x Dividend yield includes a special payment. F Yield based on prospectus or other official estimates for [illegible]. [illegible] pending scrip and/or rights issue. F Yield based on prospectus or other official estimates for 1997. K Yield based on prospectus or other official estimates for 1998. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1997-98. N Dividend a paid in whole or part on a [illegible]. R Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

♣ FT Free Annual Reports Club

You can obtain the current annual/interim report of any companies annotated with the ♣. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the internet at http://www.icbinc.com. All reports will be sent the next working day, subject to availability.

FT Company Focus / Focus Plus

Please note that FT Company Focus/Focus Plus reports ceased to be available as from May 4th 1998. However ShareFinder company reports, incorporating current and historic financial information, key performance data and concensus recommendations, may still be purchased by calling 0570 601 4600.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial advisor and verify financial pricing information obtained via FT Cityline before making any investment decisions.

All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request. Call 0171 873 4378 for more information on FT Cityline.

The share prices printed on these pages are also available on the Internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Footsie ends with flourish after erratic session

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

During another day of hefty swings in sentiment, London's benchmark FTSE 100 index moved in a 100-point arc, before embarking on a strong rally that left the index at a session high.

But dealers remained unconvinced of the market's ability to maintain the upward tack in the midst of the current volatility. Footsie has just recorded its best-ever individual points performance and its third-worst points decline in the same week.

"Underneath the mood swings this market still feels horrible. We're still nowhere like being out of the woods in terms of the global problems and I wouldn't want to chase the market until we get much near to 5,000," was the candid view of a senior marketmaker at one big London securities house.

He cited the long-standing problems that have periodically left London's market stranded in recent months, notably the economic crisis that has affected much of the Far East and carved lumps out of many Asian stock markets.

Investors' most recent concern has been Russia's economic crisis, which has seen a substantial devaluation of the rouble and a moratorium on debt repayments. Adding to the uncertainty in global markets was the decision of Boris Yeltsin, Russia's President, to sack the whole of his cabinet at the weekend.

Although wary of the Yeltsin move, dealers initially paid more attention to Wall Street's strong recovery last Friday evening, which saw the Dow Jones Industrial Average pick up from being almost 300 points down to finish the session only 77 points off.

The Hong Kong market also helped sentiment, although its 4 per cent rally seemed to have been helped along by further hefty support from the Hong Kong government.

At the close, the FTSE 100 index showed a 76.7 gain at 5,553.7, a far cry from its worst position of the day, when the index recorded a 32.5 decline.

The other FTSE indices were much less volatile and did not mirror the big moves in the Footsie. The FTSE 250 made tentative progress at the start of the day and posted an 8.6 gain at best, within an hour of the start, but later fell away to end 18.5 down at 5,056.0.

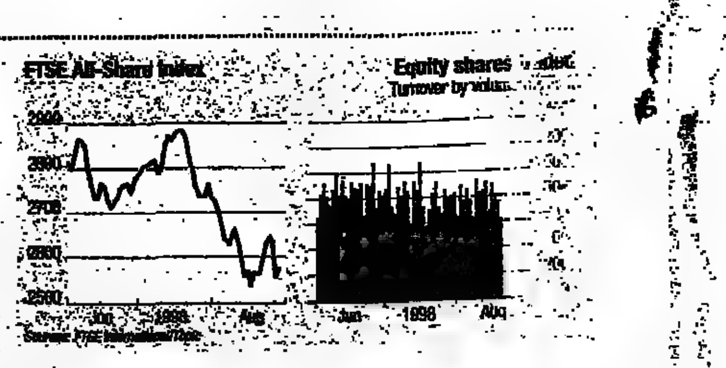
It was a similar situation for smaller stocks, where the FTSE SmallCap index began on a dull note only to fall away throughout the day and finish 9.3 down at 2,289.3.

Dealers and fund managers continued to complain about the pitiful levels of activity in the stock market. Turnover at 6pm just managed to creep over the 600m share level eventually settling at 610.5m, well down on the volume recorded in most recent sessions.

Big gains on the Hong Kong market triggered some of the best individual performances in the leaders; Schroders, which is heavily involved in running investment across the Far East, topped the performance table, closely followed by HSBC and Standard Chartered.

And Bank of Scotland rose strongly for the second consecutive session amid vague talk that Lloyds TSB might be considering a move against the bank.

FTSE All-Share index / **Equity shares traded** — Turnover by volume



Source: FTSE International/Topic

Indices and ratios

FTSE 100	5553.7	+76.7	FT 30	3546.[illegible]	[illegible]
FTSE 250	5056.0	-18.5	FTSE Non-Fins p/e	21.7[illegible]	[illegible]
FTSE 350	2660.2	+28.4	FTSE 100 Fut Sep	5590.0	[illegible]
FTSE All-Share	2584.18	+25.51	10 yr Gilt yield	5.[illegible]	[illegible]
FTSE All-Share yield	3.08	3.11	Long gilt/equity yld ratio	1.[illegible]	[illegible]

Best performing sectors		Worst performing sectors	
1 Gas Distribution	+3.4	1 Diversified Industrials	[illegible]
2 Alcoholic Beverages	+3	2 Construction	[illegible]
3 Banks, Retail	+2.4	3 Tobacco	[illegible]
4 Telecommunications	+2.3	4 Electronic & Elect Equip	[illegible]
5 Life Assurance	+2	5 Leisure & Hotels	[illegible]

Airbus gives BAe lift

COMPANIES REPORT

By Joel Kibazo and Peter John

Champagne was on order at British Aerospace after a late announcement from Airbus Industrie fuelled speculation of a £2bn order from British Airways.

Airbus said the European consortium – of which BAe represents 20 per cent – and Tony Blair, prime minister, will hold a joint news conference in Toulouse today.

BA made no comment but the news follows recent speculation suggesting the carrier was looking to renew its fleet. The company has traditionally favoured Boeing, but analysts said both Boeing and Airbus have been vying for the order to supply up to 100 new aircraft.

Brokers said Airbus Industrie's A330 was an aircraft that would suit the current needs of BA.

BAe builds the wings of the consortium's aircraft. Yesterday the shares rose 15 to 420p, in trade of 4.1m. BA rose 8½ to 496¼p.

A two-way pull in Centrica ended in victory for the optimists and the shares rose a net 4¼ to 87¼p.

Merrill Lynch applied its weight to the gas distributor as it stressed its share price target of 115p. Merrill says Centrica is the cheapest utility in the market and heavily discounts any weather-related pressures.

The shares recovered after almost two months of heavy underperformance against the market, which have seen them fall 19 per cent since the start of July.

However, BT Alex Brown is nervous about the prospects. It says the shares are wallowing just below its 85p price target, but the "vulnerability to anti-trust scrutiny [which may be linked to a change in regulator] and its sensitivity to the weather and to UK gas prices" remain concerns.

Meanwhile, Merrill recommended BG following the gas group's joint venture announcement with Texaco of a gas and condensate discovery off Trinidad. Merrill sees a 10p-15p boost to asset valuations from the Trinidad news and last week's reassessment of Indonesian assets. BG rose 11 to 386p.

Confirmation by music publishing giant EMI Group that it is considering a bid for Polygram Filmed Entertainment put the shares under pressure.

Following a weekend press report, EMI yesterday said it was "in the early stages of assessing this opportunity and a further announcement will be made if appropriate".

The shares closed 36 off at 480p, as they went ex-dividend yesterday.

Bank shares were led higher by HSBC, which responded to the recovery in the Hang Seng index.

Hong Kong government support for the index and for HSBC shares, which represent about 30 per cent of the Hang Seng, has been reflected by the narrowing of the gap between the two classes of stock.

Historically the Hong Kong-denominated shares trade about 6 per cent below the UK-denominated. But the gap had narrowed to 2 per cent by last night's close and the scramble by UK investors to keep up with the Hong Kong support operation led to heavy turnover. Between them, the two classes of share saw almost 30m shares change hands. Hong-Kong denominated HSBC jumped 91 to £13.40 and the UK-denominated 83 to £13.74.

Standard Chartered, which is also exposed to Hong Kong, moved forward 26 to 593p. Schroders rose 87 to £14.35 and Bank of Scotland, which has been reassuring brokers ahead of its half-year end, jumped 39 to 655p.

Halifax, however, which was taken on by institutional investors at 740p a share more than a year ago, languished down 9 at 697p.

Trading in Royal Bank of Scotland was suspended shortly before the close as the shares were quoted more than 20 per cent away from the opening price. Adjusted, the shares ended 10 higher at 920p.

Hard-hit paper and packaging stocks looked slightly less crumpled yesterday as they benefited from pre-results buying.

Bunzl forward

Bunzl, which reports next Tuesday and is forecast to announce profits between £62m-£63m after £56.3m last time, moved forward 3¼ to 230p. The shares have underperformed the FTSE All Share Index by 15 per cent over the past month.

David Newlands of Panmure Gordon said: "The results should be good. It is a very steady company, chugging along with 7 or 8 per cent earnings growth that does not deserve to be on a 35 per cent discount to the market."

Rexam, which reports on Thursday, was also up in spite of a more gloomy outlook. The company said in the course of the latest of many profits warnings that the pre-tax figure would be no less than £85m compared with £92m last time.

Analysts are more interested in news on further disposals from the company. The shares, which have underperformed the All-Share by 37 per cent over 12 months, recovered a penny to 205p.

Buyers continued to chase British-Borneo. The exploration and production stock pumped up 8 to 248p on further consideration of the company's exploration success west of the Shetland Islands.

Cairn Energy, trading at a quarter of its peak valuation, shed another 2 to 161½p as investors failed to enthuse ahead of figures today. The company has failed to capitalise successfully on its Bangladesh operations and one analyst said: "Given its current position, it's not undervalued relative to the sector."

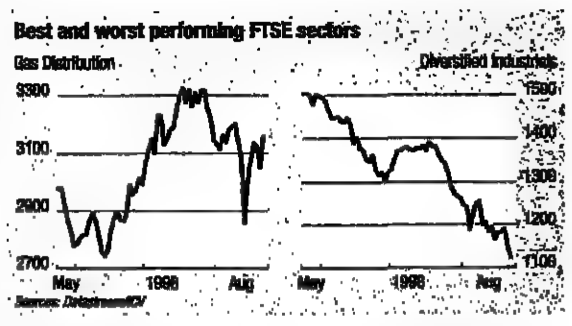
Reckitt & Colman rose after a news report said the household goods group was considering a strategic alliance or merger. Shares in the company – which announces first-half results on Thursday – traded 19 higher at £10.61.

The newspaper said Reckitt had previously been seen as a possible target for Unilever, Procter & Gamble or Colgate-Palmolive, and was a potential partner for Clorox of the US and Benckiser of the Netherlands.

PowerGen was firm in early trading as Salomon Smith Barney recommended the stock in anticipation of government approval of the bid for East Midlands.

The broker expects PowerGen to increase its dividend in the event of the bid going through. It has upgraded its stance to "outperform" from "neutral" and set an 830p price target on the shares. The shares were up 12 at best but ended 10 lower at 760p.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Aug 24	Aug 21	Aug 20	Aug 19	Aug 18	Yr ago	*High	*Low
FT 30	3545.7	3513.1	3528.7	3536.2	3592.9	3129.0	3984.9	3493.5
Ord. div. yield	3.02	3.08	2.98	2.95	2.98	3.84	4.22	2.72
P/E ratio net	22.21	21.94	22.67	22.69	22.51	17.91	26.41	18.80
P/E ratio nil	22.12	21.85	22.57	22.60	22.42	17.73	26.19	18.71

FT 30 since compilation: high 3920.3 11/05/98; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3513.1	3535.8	3511.3	3520.0	3508.1	3528.2	3530.8	3531.2	3546.8	3493.5

 *For 1998

STOCK MARKET TRADING DATA

	Aug 24	Aug 21	Aug 20	Aug 19	Aug 18	Yr ago
SEAQ bargains	51,088	65,325	47,036	57,015	55,380	40,113
Equity turnover (£m)†	-	2873.1	2473.0	3197.7	2792.3	2307.8
Equity bargains†	-	43,794	36,890	44,008	42,614	41,367
Shares traded (mi)†	-	746.0	699.4	820.2	835.8	672.0
Total market bargains‡	-	66,129	44,081	56,410	54,215	-
Total turnover (£m)‡	-	4276.8	3367.3	4259.3	3888.1	-
Total shrs. traded (m)‡	*767.3	1038.7	795.5	1042.6	868.8	-
Tradepoint turnover (£m)	61.4	17.3	33.4	39.7	32.5	3.0
Tradepoint shrs traded(m)	8.8	5.4	10.0	9.4	7.9	0.4

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	427	Total Highs	25	Total contracts	27,406
Total Falls	1,110	Total Lows	226	Calls	14,623
Same	1,433			Puts	12,[illegible]

Aug 24 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	5535.0	5590.0	+105.0	5592.0	5462.0	22298	[illegible]
Dec	5642.0	5670.0	+103.0	5642.0	5580.0	13	[illegible]
Mar		5730.0	+100.0			0	[illegible]

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	5106.0	5089.0	-17.0	5106.0	5106.0	24	[illegible]
Dec		5156.0	-17.0				

■ FTSE 100 INDEX OPTION (LIFFE) (*5526) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Aug 24	Day's chge%	Aug 21	Aug 20	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5553.7	+1.4	5477.0	5567.4	4866.3	3.00	2.04	1.98	21.19	111.92	2444.37
FTSE 250	5056.0	-0.4	5074.5	5158.3	4850.0	3.27	2.78	2.00	19.14	95.00	2178.25
FTSE 250 ex Inv Tr	5097.9	-0.4	5120.6	5196.5	4880.9	3.37	2.85	2.06	18.00	98.33	2204.96
FTSE 350	2660.2	+1.1	2631.8	2714.5	2359.2	3.06	2.55	1.97	20.79	52.66	2391.72
FTSE 350 ex Inv Tr	2666.0	+1.1	2637.1	2719.9	2360.0	3.07	2.60	1.96	20.58	53.13	1229.46
FTSE 350 Higher Yield	2557.3	+1.0	2531.4	2614.9	2271.7	4.18	3.63	1.90	15.80	66.36	1958.40
FTSE 350 Lower Yield	2763.0	+1.1	2732.2	2816.1	2460.1	2.18	1.84	2.07	27.68	41.66	2016.18
FTSE SmallCap	2289.31	-0.4	2298.59	2322.19	2253.12	3.51	2.88	1.82	16.46	39.44	1899.26
FTSE SmallCap ex Inv Tr	2272.66	-0.5	2283.01	2298.07	2224.26	3.76	3.08	2.02	16.46	41.19	2005.34
FTSE All-Share	2584.18	+1.0	2558.67	2636.19	2306.04	3.08	2.60	1.97	20.65	50.79	2357.58
FTSE All-Share ex Inv Tr	2592.67	+1.0	2566.49	2644.00	2306.84	3.10	2.62	1.98	20.33	51.42	1217.02

■ FTSE Actuaries Industry Sectors

	Aug 24	Day's chge%	Aug 21	Aug 20	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	3941.92	---	3943.11	4052.21	4905.97	3.89	3.26	1.66	19.34	88.48	1619.76
12 Extractive Industries(6)	2435.63	-0.4	2446.06	2504.66	4213.32	5.73	5.29	2.05	10.61	79.47	769.63
15 Oil, Integrated(4)	4503.04	---	4502.61	4632.89	5088.23	3.78	3.24	1.58	20.87	98.58	2139.45
16 Oil Exploration & Prod(12)	2358.39	+0.1	2355.29	2397.62	3789.15	2.41	2.00	1.73	28.63	33.41	1465.89
20 GEN INDUSTRIALS(210)	1792.70	-0.1	1793.67	1846.51	2024.68	4.05	3.56	2.27	13.61	44.69	1060.98
21 Construction(38)	1284.43	-1.6	1285.14	1300.19	1383.90	3.90	3.16	2.73	11.77	32.87	1130.35
22 Building Matls & Merchs(26)	1469.93	-0.4	1475.17	1517.05	1849.39	5.00	4.36	2.00	12.50	39.74	804.62
23 Chemicals(23)	2199.57	+0.6	2186.32	2238.37	2682.55	4.32	4.01	1.71	16.93	61.84	1135.73
24 Diversified Industrials(7)	1122.16	-2.4	1150.21	1190.09	1410.27	5.16	4.79	2.10	11.58	56.21	710.23
25 Electronic & Elect Equip(35)	2348.62	-0.8	2368.38	2416.92	2131.73	3.22	2.62	1.85	20.96	53.16	1311.31
26 Engineering(53)	2351.47	+0.5	2339.44	2431.62	2724.04	4.05	3.60	2.49	12.41	50.15	1526.57
27 Engineering, Vehicles(11)	3625.97	+0.4	3613.26	3722.53	3027.97	2.41	2.21	3.36	15.31	57.50	2006.68
28 Paper, Pckg & Printing(25)	1698.68	+0.7	1687.31	1733.05	2148.86	5.26	4.73	2.41	9.82	54.29	773.63
30 CONSUMER GOODS(90)	5632.80	+1.2	5565.47	5817.86	4505.74	2.80	2.32	1.73	27.74	96.33	2237.13
32 Alcoholic Beverages(6)	3758.37	+3.0	3647.38	3917.76	3263.90	3.60	3.05	1.60	21.71	69.61	1473.41
33 Food Producers(25)	3634.98	+0.7	3611.12	3727.52	3040.09	2.88	2.45	2.10	20.71	64.54	1793.59
34 Household Goods & Texts(24)	2886.73	+0.9	2863.85	2884.52	3155.66	3.77	3.36	2.05	16.15	54.01	1220.19
36 Health Care(13)	2314.73	+0.7	2299.25	2348.78	2299.24	2.21	2.05	2.21	25.50	31.70	1484.53
37 Pharmaceuticals(19)	9710.97	+1.5	9569.99	10000.09	7149.39	1.81	1.69	1.59	40.31	145.80	3492.06
38 Tobacco(3)	5321.83	-1.2	5384.11	5577.86	4443.78	4.83	4.27	1.61	16.04	130.10	1489.53
40 SERVICES(280)	3466.91	+0.9	3437.03	3525.36	2715.83	2.47	2.03	2.02	25.07	50.92	1916.83
41 Distributors(28)	2155.56	-0.1	2157.05	2204.92	2813.61	4.59	3.79	1.97	13.85	57.51	854.00
42 Leisure & Hotels(37)	3153.72	-0.4	3167.41	3206.06	3246.50	3.01	2.49	2.58	16.08	69.58	1794.91
43 Media(41)	4288.86	-0.3	4299.92	4412.11	4038.17	2.44	2.05	2.14	23.99	76.39	1634.80
44 Retailers, Food(13)	2825.48	+0.5	2812.38	2898.44	2417.44	3.21	2.57	2.12	18.38	54.48	1986.29
45 Retailers, General(46)	2168.21	+1.3	2140.94	2178.43	2216.64	3.43	2.75	2.10	16.77	41.26	1328.45
46 Telecommunications(10)	5039.00	+2.3	4925.82	5098.72	2385.84	1.79	1.43	1.45	49.66	47.70	2471.58
47 Breweries, Pubs & Rest.(24)	3692.10	+1.8	3628.43	3754.99	3326.43	3.33	2.67	2.35	15.99	65.00	1896.10
48 Support Services(54)	4789.48	-0.3	4806.27	4855.21	3087.35	1.28	1.07	2.68	36.51	31.01	3158.97
49 Transport(24)	3529.96	-0.2	3537.07	3626.14	2872.84	3.01	2.45	1.80	26.00	60.17	1581.97
60 UTILITIES(33)	3991.72	+1.1	3948.29	4010.61	3090.82	4.03	3.30	1.74	17.83	89.38	1003.06
62 Electricity(8)	4392.44	---	4391.50	4440.99	3436.88	4.58	3.67	1.90	14.37	107.21	2593.83
64 Gas Distribution(3)	3153.38	+3.4	3050.56	3122.67	2356.82	2.06	1.65	‡	‡	26.03	1822.56
68 Water(12)	3473.92	+0.9	3443.48	3499.81	2874.96	4.92	4.22	2.34	10.66	112.14	2174.17
69 NON-FINANCIALS(590)	2641.67	+0.8	2621.91	2702.43	2315.49	2.99	2.55	1.92	21.79	47.71	2162.80
70 FINANCIALS(106)	4913.35	+1.9	4823.57	4961.55	4575.60	3.44	2.84	2.16	16.82	124.79	2292.97
71 Banks, Retail(12)	6995.48	+2.4	6832.63	7084.25	7082.79	3.65	2.92	2.11	16.21	195.24	2478.35
73 Insurance(15)	2185.59	+0.1	2182.81	2254.84	1831.76	3.96	3.60	2.54	12.44	73.71	1828.93
74 Life Assurance(8)	7342.25	+2.0	7200.80	7159.03	4899.46	2.60	2.25	2.40	20.02	118.11	3284.88
77 Other Financial(25)	4312.90	+1.1	4267.68	4413.30	3348.70	2.59	2.14	2.16	22.35	77.22	2639.50
79 Property(45)	1683.66	+0.2	1680.35	1718.40	2008.40	3.49	2.93	1.64	21.82	38.14	1243.71
80 INVESTMENT TRUSTS(114)	3538.51	+0.2	3532.07	3650.86	3480.59	2.31	1.87	1.17	46.27	47.20	1293.97
89 FTSE All-Share(850)	2584.18	+1.0	2558.67	2636.19	2306.04	3.08	2.60	1.97	20.65	50.79	2357.58
105 FTSE All-Share ex Inv Tr(736)	2592.67	+1.0	2566.49	2644.00	2306.84	3.10	2.62	1.98	20.33	51.42	1217.02
Information Technology	1647.20	-1.0	1663.80	1684.69	-	0.55	0.44	4.03	56.25	4.95	1652.74
FTSE Fledgling	1271.21	-0.3	1275.39	1286.09	1252.42	3.42	2.77	1.42	25.80	22.94	1415.77
FTSE Fledgling ex Inv Tr	1298.02	-0.3	1298.84	1303.12	1252.15	3.74	3.04	1.48	22.53	25.66	1446.61
FTSE AIM	978.1	-1.3	990.6	998.1	1028.1	1.10	0.88	‡	‡	7.23	906.46

■ Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5477.0	5527.5	5467.8	5488.5	5478.0	5505.8	5530.9	5523.3	5553.7	5444.5
FTSE 250	5075.7	5083.1	5075.7	5060.8	5063.4	5057.0	5058.1	5057.2	5083.1	5055.0
FTSE 350	2631.9	2652.4	2628.2	2625.4	2631.1	2641.5	2651.4	2648.3	2660.2	2616.7
FTSE SmallCap	2296.95	2298.01	2294.70	2293.22	2291.59	2290.86	2290.20	2289.84	2298.15	2289.32
FTSE All-Share	2558.67	2577.47	2555.18	2562.54	2557.65	2567.08	2576.18	2573.34	2584.18	2546.34

Time of FTSE 100 Day's high: 16:30:00 Day's low: 11:33:00. FTSE 100 1998 High: 6179.0 (20/07/98) Low: 5088.9 (12/01/98)
Time of FTSE All-Share Day's high: 16:30:00 Day's low: 11:33:00. FTSE All-Share 1998 High: 2885.20 (20/07/98) Low: 2289.32 (12/01/98)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. Deletions: Radius, Kiln Capital, China Inv. Tst. (all FTSE Fledgling).

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

+/- High Low Yld P/E

EUROPE

AUSTRIA (Aug 24 / Sch)

BELGIUM/LUXEMBOURG (Aug 24 / Frs.)

CZECH REP (Aug 24 / Korunas)

DENMARK (Aug 24 / Kr)

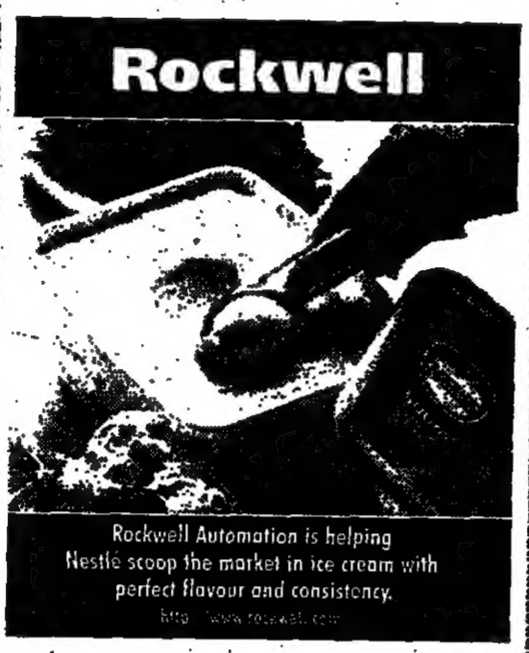
FINLAND (Aug 24 / Mkk)

FRANCE (Aug 24 / Frs.)

GERMANY (Aug 24 / Dm.)

GREECE (Aug 24 / Drachma)

ITALY (Aug 24 / Lira)



POLAND (Aug 24 / Zloty)

PORTUGAL (Aug 24 / Escudo)

SPAIN (Aug 24 / Pta.)

NETHERLANDS (Aug 24 / Fls.)

NORWAY (Aug 24 / Kroner)

SWEDEN (Aug 24 / Kronor)

SWITZERLAND (Aug 24 / Frs.)

TURKEY (Aug 24 / TK Lira)

PACIFIC

JAPAN (Aug 24 / Yen)

HONG KONG (Aug 24 / HK$)

INDONESIA (Aug 24 / Rupiah)

MALAYSIA (Aug 24 / MYR)

NEW ZEALAND (Aug 24 / NZ $)

SINGAPORE (Aug 24 / S$)

SOUTH KOREA (Aug 24 / Won)

TAIWAN (Aug 24 / TW $)

THAILAND (Aug 24 / Baht)

AUSTRALIA (Aug 24 / Aust$)

AFRICA

SOUTH AFRICA (Aug 24 / Rand)

AMERICAS

CANADA

TORONTO (Aug 24 / Can $)
4 pm close

MONTREAL (Aug 24 / Can $)
4 pm close

MEXICO (Aug 24 / Peso)
12:30 pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY AUGUST 21 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY AUGUST 20 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	176.83	-2.6	160.50	162.16	165.50	202.11	-1.0	3.89	181.35	165.28	163.00	169.86	204.15	228.24	172.69	233.09
Austria (22)	200.61	-5.8	182.29	184.18	187.87	187.85	-5.4	1.80	212.42	193.59	190.92	198.73	198.60	253.73	181.60	195.78
Belgium (22)	368.55	-2.6	334.89	338.36	345.33	337.72	-2.4	2.03	378.29	344.75	339.99	353.90	346.13	398.52	234.33	239.11
Brazil (26)	164.19	-3.6	149.19	150.74	153.84	355.11	-3.4	3.25	170.25	155.15	153.01	159.27	367.71	308.59	164.19	286.00
Canada (119)	192.70	-2.2	175.10	176.92	180.56	214.46	-1.8	1.90	197.14	179.66	177.18	184.43	218.35	248.78	192.70	215.12
Denmark (34)	462.71	-2.4	420.45	424.81	433.56	432.18	-2.2	1.50	474.27	432.22	426.26	443.69	442.05	537.33	375.32	391.78
Finland (28)	425.33	-5.2	386.49	390.49	398.53	488.98	-5.0	1.88	448.42	408.67	403.03	419.51	514.99	506.48	267.89	303.80
France (78)	302.48	-3.6	274.85	277.70	283.42	288.64	-3.5	2.20	313.82	286.00	282.05	293.59	296.93	345.18	217.48	225.86
Germany (56)	267.94	-5.6	243.47	245.99	251.05	251.06	-5.6	1.27	284.39	259.18	255.59	266.04	266.04	325.81	204.69	220.80
Greece (37)	304.40	-1.9	276.60	279.47	285.22	652.88	-1.5	1.42	310.28	282.77	278.87	290.28	673.07	393.20	280.24	-
Hong Kong, China (68)	220.14	-1.9	200.04	202.11	206.27	219.04	-1.9	7.09	224.48	204.56	201.74	209.99	223.30	543.68	186.64	543.68
Indonesia (27)	31.20	-3.4	28.35	28.65	29.24	223.97	-2.6	3.02	32.31	29.45	29.04	30.23	229.96	185.22	23.59	185.22
Ireland (16)	476.90	-3.1	433.35	437.83	446.86	483.16	-3.0	1.95	492.36	448.71	442.51	460.62	497.98	500.44	359.60	367.02
Italy (64)	160.22	-4.2	145.59	147.10	150.13	212.77	-4.0	1.38	167.18	152.34	150.24	156.39	221.52	184.49	97.93	97.99
Japan (480)	84.02	-2.5	76.35	77.14	78.73	77.14	-0.4	1.02	86.18	78.54	77.46	80.63	77.46	131.12	81.87	131.12
Malaysia (108)	82.79	-7.9	75.23	76.01	77.58	134.73	-6.8	4.67	89.93	81.95	80.82	84.13	144.59	400.82	79.14	400.82
Mexico (23)	1016.24	-6.0	923.43	932.99	952.20	10783.24	-1.9	2.53	1081.18	985.25	971.66	1011.41	10995.13	1901.98	1016.24	1815.75
Netherlands (27)	479.95	-2.8	436.12	440.64	449.71	445.19	-2.8	2.01	493.61	449.85	443.64	461.78	457.14	562.38	385.58	412.18
New Zealand (14)	56.06	-3.5	50.94	51.46	52.52	60.53	-2.2	5.01	58.09	52.94	52.21	54.35	61.90	95.87	54.90	89.53
Norway (38)	238.02	-3.4	218.29	218.52	223.03	250.04	-3.5	2.50	246.33	224.49	221.39	230.45	259.22	374.64	238.02	317.63
Philippines (22)	55.24	-3.0	50.19	50.71	51.76	117.98	-2.1	1.43	56.97	51.92	51.20	53.30	120.54	132.18	52.48	132.18
Portugal (18)	256.53	-4.0	233.10	235.51	240.36	324.21	-3.6	1.00	267.07	243.39	240.04	249.86	336.45	289.39	250.83	-
Singapore (41)	121.00	-0.8	109.95	111.09	113.38	98.53	0.4	3.06	121.94	111.13	109.59	114.08	98.11	342.21	118.87	339.58
South Africa (40)	174.08	-5.2	158.19	159.82	163.12	242.00	-5.1	3.70	183.73	167.44	165.13	171.88	255.01	348.20	174.08	340.40
Spain (31)	354.15	-5.9	321.80	325.14	331.83	410.30	-5.7	1.98	376.35	342.92	336.19	352.02	435.28	417.73	236.28	243.56
Sweden (49)	516.35	-4.0	469.20	474.05	483.82	626.30	-3.4	1.87	538.15	490.44	483.67	503.46	648.36	628.19	439.88	485.28
Switzerland (28)	388.94	-3.7	353.42	357.08	364.43	363.43	-3.5	1.15	403.82	368.02	362.94	377.79	376.61	439.48	283.85	303.05
Thailand (37)	10.10	-5.1	9.18	9.28	9.47	16.31	-3.6	5.78	10.65	9.70	9.57	9.96	16.90	50.64	9.59	50.64
United Kingdom (210)	348.68	-2.9	316.84	320.12	326.71	316.84	-3.2	3.14	359.17	327.32	322.81	336.01	327.32	401.34	303.41	310.87
USA (625)	442.04	-1.0	401.67	405.82	414.18	442.04	-1.0	1.47	448.53	408.94	401.33	417.75	448.53	485.86	358.31	375.87
Americas (799)	394.62	-1.1	358.58	362.29	369.76	534.83	-1.1	1.50	399.00	363.63	358.61	373.28	338.21	437.03	320.79	343.39
Europe (748)	333.41	-3.8	302.96	306.09	312.40	318.77	-3.7	2.14	346.42	315.71	311.35	324.09	331.08	386.24	265.25	273.36
Eurobloc (352)	96.90	-4.3	88.05	88.96	90.79	98.19	-4.2	1.74	101.27	92.29	91.02	94.75	102.48	113.28	85.60	-
Nordic (149)	459.59	-4.0	417.62	421.94	430.63	481.27	-3.6	1.85	478.54	436.11	430.10	447.69	498.85	555.97	380.51	421.80
Pacific Basin (885)	88.79	-2.5	80.68	81.52	83.19	81.74	-0.7	1.81	91.10	83.02	81.88	85.23	82.29	148.33	86.47	148.33
Euro-Pacific (1613)	190.73	-3.4	173.31	175.11	178.71	171.07	-2.9	2.06	197.52	180.01	177.52	184.78	176.22	220.19	172.03	200.52
North America (744)	425.39	-1.1	386.54	390.54	398.59	426.49	-1.0	1.48	429.92	391.81	386.40	402.21	430.95	489.20	349.08	365.87
Europe Ex. UK (538)	314.09	-4.2	285.41	288.36	294.30	308.71	-4.0	1.65	327.68	298.64	294.52	306.57	322.48	366.32	238.79	246.81
Europe Ex. Eurobloc (396)	90.59	-3.1	82.32	83.17	84.88	92.61	-3.2	2.56	93.54	85.25	84.07	87.51	95.71	103.93	90.30	-
Europe Ex. UK Ex. Eurobloc (186)	94.30	-3.6	85.69	86.58	88.36	96.68	-3.3	1.40	97.84	89.16	87.93	91.53	99.08	109.21	94.30	-
Pacific Ex. Japan (385)	139.50	-2.6	126.76	128.08	130.71	150.40	-1.7	4.98	143.29	130.59	128.79	134.05	152.99	297.83	133.44	297.83
World Ex. Eurobloc (2100)	92.13	-1.7	83.72	84.58	86.32	94.08	-1.4	1.76	93.74	85.43	84.25	87.70	95.46	103.16	91.33	-
World Ex. US (1827)	190.90	-3.4	173.47	175.27	178.88	175.67	-2.8	2.07	197.66	180.14	177.65	184.92	180.90	221.91	175.30	204.42
World Ex. UK (2242)	264.59	-2.1	240.42	242.91	247.92	246.26	-1.8	1.59	270.19	246.24	242.84	252.78	250.68	288.02	234.24	254.22
World Ex. Japan (1972)	364.93	-2.1	331.60	335.03	341.93	362.09	-2.1	1.83	372.86	339.80	335.12	348.83	369.72	411.23	308.33	324.46
The World Index (2452)	271.78	-2.2	246.96	249.51	254.65	252.77	-1.9	1.75	277.78	253.16	249.67	259.86	257.69	306.58	241.30	259.12

Emerging markets: IFC Investable Indices

Dollar terms

Aug 21 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	723.18	-6.8	-35.2
Brazil	320.28	-3.0	-31.8
Chile	438.41	-3.0	-31.8
Colombia	458.47	-4.4	-44.5
Mexico	445.42	-6.3	-43.5
Peru	159.47	-6.0	-28.0
Venezuela	286.72	-8.7	-67.8
East Asia			
China	23.78	-0.3	-57.0
Korea	26.40	-0.2	+10.2
Philippines	78.77	-3.3	-31.0
Taiwan, China	112.78	-1.5	-30.0
South Asia			
India	82.49	-1.4	-25.0
Indonesia	15.28	-8.4	-54.7
Malaysia	45.46	-8.5	-50.1
Pakistan	93.21	-3.2	-61.7
Sri Lanka	70.07	-2.2	-39.8
Thailand	36.41	-3.2	-22.8
Europe/Mideast/Africa			
Czech Rep	40.00	-2.7	-12.3
Egypt	67.95	-0.5	-27.1
Greece	540.86	-1.8	+58.9
Hungary	282.32	-0.1	-10.1
Israel	122.88	-0.1	+0.8
Jordan	238.23	+0.1	+12.4
Morocco	172.84	+0.6	+32.5
Poland	578.48	-4.8	-2.9
Portugal	286.43	-3.8	+25.7
Russia	32.11	-6.9	-78.4
S Africa	124.10	-6.0	-31.0
Slovakia	69.93	+0.5	-39.6
Turkey	205.08	-6.2	-34.1
Zimbabwe	174.89	-1.7	-60.5
Regions:			
Composite	173.44	-3.8	-29.5
Latin America	422.58	-4.7	-37.5
Asia	75.08	-2.7	-30.3
EMEA	118.71	-3.7	-19.6
Europe	158.18	-3.5	-17.2
Eastn Europe	65.98	-3.4	-59.0
ME & Africa	58.68	-4.0	-22.1

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1993; [illegible]; (16) July 2 1993. Latest indices were unavailable for this edition.

NEW YORK STOCK EXCHANGE PRICES

4 pm close August 24

1998 High	Low	Stock	Div.	Yld. %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ¶ Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Aug 21	Aug 20	Aug 19	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8533.65	8611.41	8603.28	9337.97 (17/7)	7580.42 (9/1)	9337.97 (17/7/98)	41.22 (2/7/32)
Home Bonds	105.24	105.13	105.20	105.48 (15/7)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	2988.98†	3047.25	3084.88	3686.02 (16/4)	2954.25 (21/8)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	282.65	280.09	279.97	295.40 (6/7)	262.88 (9/1)	295.40 (6/7/98)	10.53 (8/7/32)

DJ Ind. Day's High 8680.34 (8738.75) Low 8307.80 (8538.29) (Theoretical) Day's High 8609.06 (8694.37) Low 8528.30 (8604.97) (Actual)

Standard and Poors	Aug 21	Aug 20	Aug 19	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1081.18	1091.60	1098.06	1186.75 (17/7)	927.69 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials‡	1280.61	1290.81	1294.62	1380.46 (17/7)	1077.40 (9/1)	1380.46 (17/7/98)	3.52 (30/6/32)
Financial‡	122.41†	124.77	127.43	147.88 (14/7)	110.65 (9/1)	147.88 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	540.82	548.22	550.05	600.75 (17/7)	487.47 (9/1)	600.75 (17/7/98)	4.64 (25/4/42)
Amex Comp	651.88	663.60	665.59	753.67 (22/4)	646.41 (12/1)	753.67 (22/4/98)	524.20 (16/7/98)
NASDAQ Comp	1797.61	1832.45	1842.88	2014.25 (20/7)	1509.22 (9/1)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	395.64	401.73	405.84	491.41 (21/4)	395.64 (21/8)	491.41 (21/4/98)	123.36 (7/12/83)

RATIOS

	Aug 21	Aug 14	Aug 7	Year ago
Dow Jones Ind. Div. Yield	1.44	1.76	1.71	1.66
	Aug 19	Aug 12	Aug 5	Year ago
S & P Ind. Div. yield	1.32	1.34	1.35	1.50
S & P Ind. P/E ratio	31.03	30.57	30.34	25.75

US DATA

MARKET ACTIVITY

Volume (million)	Aug 21	Aug 20	Aug 19
NYSE	725.780	621.830	633.830
Amex	35.948	25.946	26.495
NASDAQ	789.119	658.739	741.150

NYSE	Aug 21	Aug 20	Aug 19
Issues Traded	3,523	3,500	3,520
Rises	800	1,081	1,211
Falls	2,315	1,882	1,755
Unchanged	408	540	554
New Highs	22	34	27
New Lows	505	255	159

NYSE TRADING ACTIVITY

Volume : 725,780,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Compaq	12,751,500	35⅝	-⅞
Travlr	8,174,300	54⅝	-1⅞
Chase	7,164,100	63½	-1⅝
Telebras	8,739,800	85⅝	-1
Citicp	6,244,300	134⅛	-4⅝
LucentTch	6,141,100	86⅞	-1⅞
MicroTech	6,095,400	29⅝	-2⅞
AT&T	5,732,900	55⅞	-⅝
PhMorr	5,678,500	42⅝	+⅝
CBS Cp	5,847,800	28⅞	-⅝

BIGGEST MOVERS

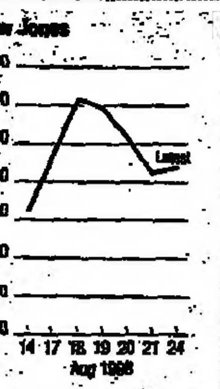
[illegible]

NASDAQ TRADING ACTIVITY

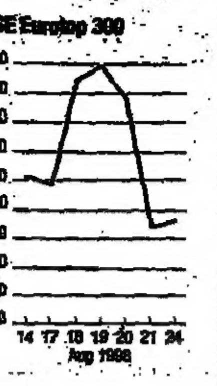
Volume : 789,119,742

[illegible]

Dow Jones



FTSE Eurotop 300



JAPAN

[illegible]

GERMANY

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FRANCE

[illegible]

UK

[illegible]

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	1086.30	1092.50	+5.70	1094.00	1080.00	186,813	381,779
Dec	1101.00	1104.50	+6.20	1105.50	1099.50	6,349	22,308

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	14940.0	15020.0	-220.0	15040.0	14810.0	28,194	214,193
Dec	14900.0	14940.0	-260.0	14980.0	14790.0	882	19,988

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Aug	4000.0	3941.0	-19	3946.0	3945.0	-	152,798
Sep	4000.5	3951.5	-19	4015.0	3902.0	-	125,542

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Sep	5270.0	5277.0	+97.0	5303.0	5144.0	38,205	94,159
Dec	5333.0	5311.5	+86.5	5343.0	5218.0	109	3,281

OMX	Open	Sett Price	Change	High	Low	Est. vol	Open int.
Aug	716.00	712.00	+6.00	718.00	697.00	39,291	85,281
Sep	718.75	714.00	+5.00	720.00	699.50	25,967	70,712

BOFFEX	Open	Sett Price	Change	High	Low	Est. vol	Open int.
Aug	7850.0	7584.7	-	-	-	-	14,878
Sep	7694.6	7245.0	-180.0	7500.0	7195.0	11,525	28,516

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

[illegible]

THE NASDAQ STOCK MARKET

4 pm close August 24

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

4 pm close August 24

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Russian reshuffle gives new twist to crisis

WORLD OVERVIEW

The recent volatility in global share prices showed no signs of diminishing yesterday, with emerging markets again providing the main focus, *writes Philip Coggan*.

Russia changed its government again and Hong Kong intervened to support its stock market. The weekend dismissal of the Kiriyenko government and the reappointment of Viktor Chernomyrdin as prime minister gave the Russian financial crisis another twist. At least Mr Chernomyrdin is a known quantity, but the change of government led to another delay in the announcement of terms for the debt restructuring plan.

The Russian stock market actually rebounded 5 per cent on the back of the political change, but there were losses in eastern European bourses.

Meanwhile, investors continued to worry that Latin America might be the next domino to fall in the emerging market crisis.

Venezuela, which announced on Friday it was allowing greater flexibility in its currency band, saw the bolivar under pressure again. The Brazilian stock market, which closed at its lowest level since January 1997 on Friday, slipped further in early trading.

"The devaluation of the rouble is having a serious impact on LatAm investor sentiment and liquidity," according to the emerging markets team at Dresdner Kleinwort Benson.

"Even if the debacle does not significantly weaken commodity prices, LatAm markets may continue to suffer due to the indirect impact that is transmitted via financial markets."

Geoffrey Dennis of Deutsche Morgan Grenfell warns: "The recent widening of emerging market bond spreads is a clear negative for emerging equity markets." He adds that the biggest risks in terms of countries that might opt to devalue and restructure debt are Venezuela, Pakistan, Indonesia and Thailand.

European and US markets managed a tentative rally after the battering taken in the previous session. Wall Street had started the stabilisation process, turning a 280-point deficit on the Dow Jones Industrial Average into a loss of only 77 points on Friday; it carried on the good work with an early 80-point gain yesterday, although the rally petered out in late morning.

The Frankfurt market managed a 1.2 per cent rebound, but that was pretty puny compared with Friday's 5.4 per cent loss. And Athens, Madrid and Zurich all finished heavily in negative territory. European bourses remain very nervous.

Strong rally by Dow runs out of steam

AMERICAS

A morning rally that sent the Dow Jones Industrial Average more than 60 points higher had run out of steam by midday, with Wall Street drifting on the latest uncertainties in emerging markets, *writes John Labate in New York*.

By early afternoon the Dow was up 8.76 to 8,542.41, and the broader Standard & Poor's 500 index was 4.49 higher at 1,085.73.

High-tech and small company shares however were sent downwards in midday trading, with the Nasdaq composite down 2.60 to 1,795.01 and the Russell 2000 off by less than a point at 395.16.

Among the notable movers were financial shares, which were on the rebound after last week's sharp sell-off. Chase Manhattan gained $¼ to $64 and First Union $⅞ to $52⅞. But Golden State Bancorp plunged 5.8 per cent or $1⅛ to $19⅝ as yields on long-term Treasuries remained at low levels.

Weighing on the Dow were shares of Allied Signal, down $⅝ to $65⅞, after its takeover target, AMP, launched a lawsuit to block the approach. AMP shares were down $⅛ to $38⅛. But major retailers gained ground, with Wal-Mart rising $1⅞ to $67.

Eastman Kodak climbed $1⅛ to $85¾ after Morgan Stanley Dean Witter raised its 1998 earnings per share estimate. In the telecoms sector Ciena rebounded $4¼ or 13.6 per cent to $35¼ after comments by the head of its merger partner, Tellabs, that the terms of its agreement could be adjusted. But Tellabs plunged 7.8 per cent to $57⅞.

Semiconductor issues were mixed. Intel was down $⅞ to $84¼ in spite of the company's expected release of a new chip product. In the networking sector shares of Cabletron plunged 10 per cent to $8¾.

Northrop Grumman rose $⅞ to $69¾ after the company announced a restructuring.

TORONTO was easier at midsession in response to a weaker Canadian dollar and lower bank stocks.

The TSE-300 composite index lost 28.62 to 6,265.66 in weak volume of 27.5m shares.

Analysts noted that weakness in the Canadian dollar, under pressure from Russia's financial crisis, prompted the Bank of Canada to intervene to support the currency.

Eight of Toronto's 14 sub-indices traded lower led by a 1.4 per cent fall in financial services and a 2.9 per cent drop by conglomerates.

The transportation sector bucked the weak trend after Canadian National Railway reached a tentative agreement with four unions over the weekend. CN stock was up 50 cents to C$76.35.

Latin America hit again

Latin American stocks, still gripped by concern over the fate of emerging markets, resumed their declines after a spurt of buying in early trading.

BUENOS AIRES continued to reflect the economic situation of Russia and Asia, made more uncertain by the cabinet changes in Russia over the weekend. By midsession, the Merval index was 1.73 lower at 405.49.

SAO PAULO demonstrated concern over a possible speculative attack on the real in the wake of currency woes in Russia and Venezuela. By midday, the Bovespa index was 215 lower at 7,549.

SANTIAGO was marked down in light trade as the central bank intervened by selling dollars to prevent the peso weakening against the US currency. The IPSA index fell 1.22 to 71.61.

MEXICO CITY moved up at the opening but soon fell back in thin volatile trade. By midsession, the IPC index was 73.10 lower at 3,340.05.

CARACAS edged higher, as investors took a breather after the sharp declines suffered last week. The IBC index was up 5.53 at 3,174.29.

See-sawing Dax ends higher

EUROPE

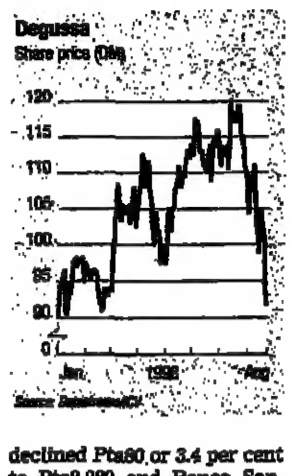
A healthy start on Wall Street, extending Friday's late recovery in US shares, helped **FRANKFURT** to close on a firmer note after a day of see-saw trade. The Xetra Dax index was 62.78 higher at 5,253.38 by the close of electronic business.

Analysts said that the underlying mood remained cautious over developments in Russia, where German banks have outstanding loans of about $30bn.

Some bank issues still managed a bounce after Friday's declines, with Commerzbank up 82 pfg to DM54.82 and Deutsche Bank gaining DM1.90 to DM125.40.

Utilities were also higher with RWE DM3.20 higher at DM89.45 and Veba DM4.10 higher at DM90.90.

Degussa, the metals group, was a sharp loser on news that Holocaust survivors had filed a class action lawsuit against the company in the US on Friday, accusing it of profiting from precious metals taken from Nazi victims.



Degussa's shares stumbled DM4.05 to DM91.75, after a low of DM88.50, as the company declined to comment. Several analysts said that the share price reaction appeared to have been overdone although one added that it was too soon to rule out the possibility that the company might have to pay out substantial sums.

MADRID remained a victim of the turmoil in Latin America, and the general index closed a volatile day down 13.66 or 1.6 per cent at 820.29.

Earlier in the day economy minister Rodrigo Rato tried to calm fears of an economic crisis, commenting that large investments by Spanish companies in Latin America were made on a medium- to long-term basis.

Companies with exposure to Latin America led the losses. Telefónica lost Pta250 or 3.7 per cent to Pta6,450. Banco Bilbao Vizacaya declined Pta80 or 3.4 per cent to Pta2,280 and Banco Santander fell Pta105 or 3 per cent to Pta3,270.

A downgrading of BBV and Santander by Goldman Sachs also affected the share prices.

Utilities were led lower by Union Fenosa, down Pta10 at Pta2,040. Endesa was off Pta40 at Pta3,120.

PARIS was unable to shake off qualms over Russia and Latin America and the CAC 40 index finished 6.25 easier at 3,937.43.

Among stocks hit by sustained Asia and Latin America worries, Lagardère lost FFr8.90 to FFr235.10 and Accor was FFr35 lower at FFr1,392.

Carrefour, hit on Friday by its Latin America exposure, recovered after Goldman Sachs held its rating. The share ended FFr4 higher at FFr3,504.

France Telecom rose FFr11.90 to FFr454.90 after Lehman Brothers included the stock in its recommended list, at the expense of Ericsson.

ZURICH was a bigger loser, and the SMI index lost 136.1 or 1.8 per cent to 7,257.7, although some of the blame for some of the losses was attributed to derivatives-related selling, which spilled over into the cash market.

Financials remained volatile. UBS, which traded between SFr507 and SFr539, finished SFr9 lower at SFr519. CS Group lost SFr7.50 to SFr293 on continuing concerns over its exposure to Russia where it has played a leading role in domestic debt markets. Insurers Swiss Re, down SFr103 to SFr3,533, and Zurich, SFr43 lower at SFr974, were also under pressure.

Defensive issues felt less of the downward pressure, although Nestlé gave up SFr16 to SFr2,913 and Roche certificates lost SFr350 to SFr15,425.

Watchmaker Swatch Group tumbled SFr71 to SFr846.

AMSTERDAM failed to find support in the rise in Frankfurt and the AEX index fell 18.19 or 1.6 per cent to 1,136.32.

International blue chips were broadly lower, with Akzo Nobel down Fl 2.50 to Fl 90.20 on fears about its performance in Asia.

Financials weakened further following Friday's sharp losses, with Aegon down Fl 1.10 or 0.6 per cent at Fl 186.10, ABN Amro off Fl 1.20 or 2.5 per cent at Fl 47.70, ING down Fl 2.20 at Fl 132 and Fortis Amev off Fl 2.60 at Fl 131.40.

Technology stocks were also hit hard. Getronics lost Fl 0.30 to Fl 104.40 despite chairman Ton Risseeuw saying Getronics would consider a takeover by another company provided this was in the company's interest.

MOSCOW rebounded 5.7 per cent, but in thin trade and in the absence of participation by foreign investors who were unnerved by President Boris Yeltsin's cabinet reshuffle on Sunday.

The RTS index closed at 4.64 higher at 86.4 points, as some domestic investors gave a tentative welcome to the appointment of Victor Chernomyrdin as acting prime minister.

Analysts noted that foreign investors were reluctant to participate ahead of the announcement of the government's plan to restructure its treasury market, due after the equity market closed.

BUDAPEST, however, took another battering from the political and financial turmoil in Russia, falling 6.6 per cent to levels not seen since the south-east Asian currency crises last November.

The Bux index closed down 475.5 at 6,713.78, slightly above an intra-day 1998 low of 6,664.57 points reached earlier in the day's trading.

WARSAW was lower for the third straight session as investors awaited the terms of a conversion of Russian domestic debt into long-term securities after the market closed. The Wig index lost 141.3 to 14,123.0.

Written and edited by Michael Morgan, Emiko Terazono, Peter Hall and Paul Grogan

Johannesburg cuts its losses

SOUTH AFRICA

Johannesburg clawed back from its lowest levels of the session after Wall Street's firmer opening, but it still closed 2 per cent lower on the day. The overall index, which lost 4.4 per cent on Friday, gave up another 3.8 per cent at one stage on continuing caution over the outlook for emerging markets.

By the close the index was 122.7 lower at 5,916.5 while industrials gave up 1.7 per cent to 6,887.8 and golds shed 1.8 per cent to 862.5.

Nikkei tumbles below 15,000

ASIA PACIFIC

Concerns about financial instability in Russia and other overseas markets pulled **TOKYO** lower as investors also kept a wary eye on Japan's own troubled banking sector, *writes Alexandra Harney*.

The Nikkei 225 average slipped 309.84 or 2 per cent to 14,988.36, just under the 15,000 point level for the first time in a week. During the day, it moved between 14,859.34 and 15,145.25 in weak trading. Only 310m shares were exchanged, well below last week's levels.

THE DAY'S CHANGES

	% Change
Karachi	+4.5
Hong Kong	+4.2
Bombay	+1.0
Seoul	u/c
Sydney	-1.3
Singapore	-1.7
Tokyo	-2.0
Kuala Lumpur	-2.1
Wellington	-2.3
Bangkok	-2.4
Taipei	-3.5
Manila	-3.6
Jakarta	-4.6

Investors continued to focus on banks and blue-chip exporter stocks. The Long Term Credit Bank of Japan, which has been in talks with *Sumitomo Trust* about a possible merger, plunged Y14 to Y60 after rebounding last week on reports that it would restructure its operations. Sumitomo Trust fell Y29 to Y402, Sakura Bank Y17 to Y283, and Sanwa Bank Y20 to Y965.

Blue-chip stocks fell on anxiety about overseas markets. Hitachi, the electronics group, slid Y12 to Y745. Sony plunged Y460 to Y11,390, and Sharp, the electronics manufacturer, was down Y12 to Y915. Honda Motor, the car group, which had risen recently in response to a strong profits announcement, lost Y60 to Y5,150.

Losers outnumbered advancers 900 to 210 and 150 shares were unchanged.

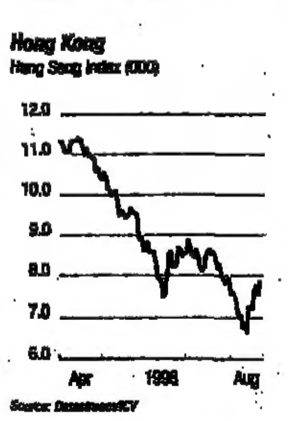
The Topix index of first-section shares fell 1.6 per cent or 18.21 to 1,158.30. In Osaka, the OSE index slipped 298 to close at 16,076.

JAKARTA was sharply down on fresh moves to restructure the banking sector. The government's decision to reduce the number of shares it will sell in Semen Gresik also weakened sentiment, particularly in other state-owned firms.

The composite index lost 17.80 at 370.55 on turnover of Rp208bn. Gresik ended down Rp725 at Rp6,050, up from a low of Rp5,100.

TAIPEI tumbled on panicky selling of electronics stocks and the weighted index fell 255.62 to 6,957.75, its lowest close in 20 months.

Electronic stocks fell 5.2 per cent. Taiwan Semiconductor fell T$4.50, its 7 per cent limit, to T$64.50 while United Microelectronics lost T$2.40 to T$35.20. Acer fell T$2 to T$34.90 on reports that it would lower this year's forecast figures at its board meeting on Friday.



MANILA was hit by profit-taking amid volatility in the region, and the composite index lost 49.49 or 3.6 per cent to 1,323.11.

The central bank tried to alleviate concerns over high interest rates by lowering overnight borrowing and lending rates by two percentage points. However, fears of worsening corporate profits led to selling.

Philippine Long Distance Telephone fell 45 pesos or 6 per cent to 715 pesos, while Ayala Land lost 60 centavos or 6.6 per cent to 9.10 pesos.

HONG KONG staged *another powerful rally in* late trade. Turnover totalled HK$2.5bn for the last half-hour's activity, dominated by government buying.

The Hang Seng index climbed 317.87 to finish at a day's high of 7,845.48. Turnover rose to HK$9.8bn against Friday's HK$5bn. The blue-chip index was expected to have further upside until the expiry of the August Hang Seng index futures contract on Friday, but resistance was seen at 8,000 points.

However, one analyst said players were sceptical about how far the government would push the market above the 8,000 level adding that the higher they pushed it, the more the traditional long investment funds would stay away.

The Hang Seng has added 17.8 per cent since the government began intervening in the stock and futures market on August 14 to fend off currency speculators.

HSBC led the advance, jumping HK$13 to HK$178 and accounting for more than half the Hang Seng's points gain.

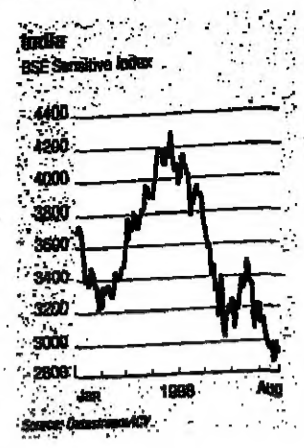
KARACHI put in a strong spurt on news that the Islamic Development Bank was likely to approve a $1.5bn loan package. The KSE-100 index closed up 42.68 at 998.77 with rumours the government was in talks with power companies.

EMERGING MARKET FOCUS

Bonds provide Indian tonic

The State Bank of India has raised about $4bn (£2.4bn) from expatriate Indians through the issue of sovereign Resurgent India bonds – bringing a dose of much needed cheer to the country's stock markets.

A measure of tonic is overdue. Equity markets remain on tenterhooks following the Reserve Bank of India's attempt to halt a precipitous decline in the value of the rupee last week.



Bimal Jalan, governor of the RBI, raised the repurchase rate by 3 percentage points to 8 per cent and increased the cash reserve imposed on banks, while imposing fresh restrictions on forward contracts to curb speculation.

Foreign investors, who stopped selling in July, sold more than $40m of stocks in the first two weeks of August. The rupee hit all-time lows against the dollar early last week, before the RBI intervened.

Senior officials at the central bank say it is not trying to target any particular value for the rupee, but it is trying to moderate the pace of change, drain out excess liquidity, and prevent panic in the markets.

Intervention worked on the day, lifting the BSE 30 index and the rupee to close above 43 to the dollar. But it has not reversed sentiment.

"I do not think it is a long-term or even a medium-term solution," said the strategist at one foreign bank. Analysts say that the rupee is vulnerable because of poor fundamentals – inflation of 8 per cent, a fiscal deficit climbing well above 6 per cent, slowing growth and falling exports.

This is why India is hit by contagion effects from devaluations elsewhere, even though it has a distinctive export profile and trades little with Russia or the rest of Asia.

The bleak macro-economic outlook overshadows more positive news at the micro level. A survey of 200 companies by Industrial Development Bank showed first-quarter profits up 28 per cent on the previous year. While this is far from representative, it suggests India faces a sharp slowdown in some industrial sectors rather than recession.

"There are quality companies which look undervalued," said the head of one joint venture investment bank. Investors, though, are sticking to safe-haven stocks – software, pharmaceuticals and consumer goods – which have outperformed.

There are fears that the worst is yet to come for industrial companies, as world commodity prices slide further.

Moreover, there is little appetite for valuation stories. "Investors have seen attractive valuations turn bad all over Asia," said the head of research at one stockbroking firm. He said attractive price-earnings ratios alone were not likely to tempt risk-averse investors back into the market.

What might do so is a clear sign that India's government is not dependent on whims of coalition partners.

"Political stability is the key signal the market is waiting for," said one senior banker.

Krishna Guha